

# CRS Report for Congress

## Iran: U.S. Concerns and Policy Responses

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# Iran: U.S. Concerns and Policy Responses

## Summary

According to the Administration's "National Security Strategy" document released on March 16, 2006, the United States "may face no greater challenge from a single country than Iran." That perception continues, generated primarily by Iran's developing nuclear program and intensified by Iran's military assistance to Shiite armed groups in Iraq and to Lebanese Hezbollah. U.S. officials also accuse Iran of refusing to bring to justice several senior Al Qaeda activists in Iran. In part to direct regional attention to that view but also to engage Iran on an Iraq solution, the Administration attended regional conferences on Iraq on March 10, 2007, and May 3-4, 2007, both attended by Iran (and Syria), and subsequently held a bilateral meeting with Iran in Baghdad on May 28.

The Bush Administration is pursuing several avenues to attempt to contain the potential threat posed by Iran, but the U.S. focus is now on multilateral sanctions and diplomatic pressure on Iran. Iran has not complied with repeated U.N. Security Council deadlines since August 2006 to cease uranium enrichment. That demand is encapsulated in two U.N. resolutions (1737 and 1747) to date that ban trade with and freeze the assets of Iran's nuclear and related entities and personalities, prevent Iran from transferring arms outside Iran, and require reporting on international travel by named Iranians. The economic pressure has included trying to persuade European governments to curb trade, investment, and credits to Iran; and pressuring foreign banks not to do business with Iran.

To strengthen its diplomacy, the Administration has added components to efforts to contain Iran, including a naval buildup in the Persian Gulf; arrests of Iranian agents in Iraq. The Administration strongly denies it is planning on military action against Iran, but has refused to rule it out. Some legislation introduced in the 110<sup>th</sup> Congress, including H.R. 1400, S. 970, H.R. 957, and H.R. 1357, would tighten unilateral U.S. sanctions on Iran, although the Administration opposes aspects of these bills that would limit Administration flexibility in applying the sanctions. Some in the Administration believe that only a change of Iran's regime would end the threat posed by Iran, although without specifying a clear means of achieving such a result.

For further information, see CRS Report RS20871, *The Iran Sanctions Act (ISA)*, by Kenneth Katzman; CRS Report RS21592, *Iran's Nuclear Program: Recent Developments*, by Sharon Squassoni; and CRS Report RS22323, *Iran's Influence in Iraq*, by Kenneth Katzman. This report will be updated as warranted.

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# **Iran: U.S. Concerns and Policy Responses**

Much of the debate over U.S. policy toward Iran has centered on the nature of the current regime; some believe that Iran, a country of almost 70 million people, is a threat to U.S. interests because hardliners in Iran's regime dominate and set a policy direction intended to challenge U.S. influence and allies in the region. President Bush, in his January 29, 2002, State of the Union message, labeled Iran part of an "axis of evil" along with Iraq and North Korea.

## **Political History**

The United States was an ally of the late Shah of Iran, Mohammad Reza Pahlavi ("the Shah"), who ruled from 1941 until his ouster in February 1979. The Shah assumed the throne when Britain and Russia forced his father, Reza Shah Pahlavi (Reza Shah), from power because of his perceived alignment with Germany in World War II. Reza Shah had assumed power in 1921 when, as an officer in Iran's only military force, the Cossack Brigade, he launched a coup against the government of the Qajar Dynasty. He was proclaimed Shah in 1925, founding the Pahlavi dynasty. The Qajar had been in decline for many years before Reza Shah's takeover. Its perceived manipulation by Britain and Russia had been one of the causes of the 1906 constitutionalist movement, which forced the Qajars to form Iran's first Majles (parliament) in August 1906 and promulgate a constitution (December 1906).

The Shah was anti-Communist, and the United States viewed his government as a bulwark against the expansion of Soviet influence in the Persian Gulf. In 1951, under pressure from nationalists in the Majles (parliament) who gained strength in the 1949 Majles elections, he appointed a popular nationalist parliamentarian, Dr. Mohammad Mossadeq, as Prime Minister. Mossadeq was widely considered left-leaning, and the United States was wary of his policies, which included his drive for nationalization of the oil industry. Mossadeq's followers began an uprising in August 1953 when the Shah tried to dismiss Mossadeq, and the Shah fled. The Shah was restored in a successful CIA-supported uprising against Mossadeq.

The Shah tried to modernize Iran and orient it toward the West, but in so doing he also tried to limit the influence of Iran's Shiite clergy. He exiled Ayatollah Ruhollah Khomeini in 1964 because of Khomeini's active opposition to the Shah, opposition based on the Shah's anti-clerical policies and what Khomeini alleged was the Shah's forfeiture of Iran's sovereignty to his patron, the United States. Khomeini fled to and taught in Najaf, Iraq, a major Shiite theological center that contains the Shrine of Imam Ali, Shiism's foremost figure. There, he was a peer of senior Iraqi

Shiite clerics and, with them, advocated direct clerical rule or *velayat-e-faqih* (rule by a supreme Islamic jurisprudent). In 1978, three years after the March 6, 1975, Algiers Accords between the Shah and Iraq's Baathist leaders, which settled territorial disputes and required each party to stop assisting each others' oppositionists, Iraq expelled Khomeini to France, from which he stoked the Islamic revolution. Mass demonstrations and guerrilla activity by pro-Khomeini forces, allied with a broad array of anti-Shah activists, caused the Shah's government to collapse in February 1979. Khomeini returned from France and, on February 11, 1979, declared an Islamic Republic of Iran, as enshrined in the constitution that was adopted in a public referendum in December 1979 (and amended in 1989). Khomeini was strongly anti-West and particularly anti-U.S., and relations between the United States and the Islamic Republic turned hostile even before the November 4, 1979, seizure of the U.S. Embassy by pro-Khomeini radicals.

## **Regime Stability, Human Rights, and Recent Elections**

About a decade after founding the Islamic republic, Ayatollah Ruhollah Khomeini died on June 3, 1989. The regime he established appears relatively stable, despite internal schisms, occasional unrest in areas inhabited by minorities, and substantial unpopularity among intellectuals, students, educated elites, and many women. Upon his death, one of his disciples, Ayatollah Ali Khamene'i, then serving as president, was selected Supreme Leader by an "Assembly of Experts" (an elected body).<sup>1</sup> (The fourth election for the Assembly of Experts was held on December 15, 2006.) Khamene'i had served two terms as elected president (1981-1989), but he has always lacked the unquestioned religio-political authority of Khomeini. He has compensated in recent years by using his formal powers to appoint heads of key institutions, such as the armed forces and half of the twelve-member Council of Guardians.<sup>2</sup> This conservative-controlled body reviews legislation to ensure it conforms to Islamic law, and it screens election candidates. Another body is the 42-member Expediency Council, set up in 1988 to resolve legislative disagreements between the *Majles* (parliament) and the Council of Guardians. Its members are appointed by the Supreme Leader for five-year terms. The Council, appointed most recently in February 2007, is still headed by former President (1989-1997) Akbar Hashemi-Rafsanjani; its executive officer is former Revolutionary Guard leader Mohsen Reza'i.

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<sup>1</sup> The Assembly also has the power to amend Iran's constitution.

<sup>2</sup> The Council of Guardians consists of six Islamic jurists and six secular lawyers. The six Islamic jurists are appointed by the Supreme Leader. The six lawyers on the Council are selected by the judiciary but confirmed by the *Majles* (parliament).

**Table 1. Major Factions and Personalities**

Reformists	
Mohammad Khatemi/ Reformists	Reformist president during 1997-2005. Elected May 1997, with 69% of the vote; re-elected June 2001 with 77%. Rode wave of sentiment for easing social and political restrictions among students, intellectuals, youths, and women that seeks reform but not outright replacement of the Islamic republican regime. Khatemi supporters held about 70% of the 290 seats in the 2000-2004 Majles. Now heads International Center for Dialogue Among Civilizations and remains a public figure in Iran. Visited U.S. in September 2006 to speak at Harvard and the Washington National Cathedral on "dialogue of civilizations." Reformist Mostafa Moin finished fifth in the first round of presidential elections on June 17, 2005.
Office of Consolidation Unity (Daftar Tahkim-e- Vahdat)	Hardline reformists. Originally strong Khatemi supporters, but turned against him for failing to challenge hardliners, particularly after July 1999 violent crackdown on student riots, in which four students were killed.
The Islamic Iran Participation Front (IIPF).	The most prominent and best organized pro-reform grouping, it is headed by Khatemi's brother, Mohammad Reza Khatemi. He was a deputy speaker in the 2000-2004 Majles.
Mojahedin of the Islamic Revolution Organization (MIR).	Composed mainly of left-leaning Iranian figures who support state control of the economy, but want greater political pluralism and relaxation of rules on social behavior.
Conservatives	
Supreme Leader Ali Khamene'i and Akbar Hashemi- Rafsanjani	Considered moderate conservative, seek to challenge U.S. hegemony but not isolate Iran completely or provoke military confrontation. Generally supportive of the business community (bazaaris), and oppose major state intervention in the economy. Rafsanjani, key strategist of the regime, advocates "grand bargain" to resolve all outstanding issues with United States. At Rafsanjani's urging, Khamene'i recently has taken more active role constraining Ahmadinejad's authority; has constitutional authority to dismiss Ahmadinejad, but no indication he plans such action.
President Mahmoud Ahmadinejad	Leads faction of younger, harder line conservatives associated with Revolutionary Guard, revolutionary institutions, and provincial governments. Generally support state control of the economy, social welfare programs for lower classes. Cabinet consists largely of his hardline associates in the Revolutionary Guard, the Basij, or the Tehran mayoralty. However, the Majles rejected the first three of his oil-minister nominees. In keeping with a practice begun by Khatemi, he also named a woman as one of his nine vice presidents.

Majles Speaker Gholem Ali Haded-Adel	Relative by marriage of Khamene'i, controls largest conservative faction in the Majles. Possibly at Khamene'i's behest, has sometimes challenged Ahmadinejad's nominees and budget proposals.
Ali Larijani	Former state broadcasting head, now heads Supreme National Security Council and is chief nuclear negotiator. Considered very hardline and supports Ahmadinejad goal of nuclear advancement, but recently has sought to appear conciliatory to U.N. Security Council.
Mohammad Baqer Qalibaf	Former Revolutionary Guard Air Force commander and police chief, but perceived as a moderate conservative and rival of Ahmadinejad. Supporters won nine out of 15 seats on Tehran city council in December 2006 elections, defeating Ahmadinejad supporters. Is now mayor of Tehran. Possible challenger to Ahmadinejad in 2009.
Mahmud Hashemi Shahrudi	An Ayatollah, has headed the judiciary since 1999. Ally of Khamene'i and Rafsanjani, has supported repeated crackdowns on independent media critical of the regime. But, has cracked down on judicial corruption and on mistreatment of prisoners. Politically close to Shiite Islamist parties in Iraq.
Ayatollah Mohammad Taqi Mesbah-Yazdi	Founder of the hardline Haqqani school, and spiritual mentor of Ahmadinejad. Fared poorly in December 2006 elections for 83-seat "Assembly of Experts" that can amend the constitution, oversee Khamene'i's performance, and determine his successor, but did win a seat. An assertive defender of the powers of the Supreme Leader and a proponent of an "Islamic state" rather than the current "Islamic republic," and advocates isolation from the West. Some believe Mesbah-Yazdi wants to replace Khamene'i as Supreme Leader.

**The Rebound of the Conservatives and the 2005 Election of Mahmoud Ahmadinejad.** After suffering several major election defeats at the hands of Mohammad Khatemi and the reformists during 1997-2000 — and losing the grip on power they held while Khomeini was alive — the broad conservative camp has been gaining strength since the February 28, 2003, municipal elections, when reformists largely boycotted and hardliners won most of the seats. They gained additional strength from the February 20, 2004, Majles elections, in which the Council of Guardians disqualified about 3,600 mostly reformist candidates, including 87 members of the current Majles, enabling the conservatives to win a majority (about 155 out of the 290 seats) on turnout of about 51%. The Administration and the Senate (S.Res. 304, adopted by unanimous consent on February 12, 2004) criticized the elections as unfair, because of candidate screening.

On the tide of these victories, Rafsanjani regained much of his former political prominence and ran in the June 2005 presidential elections. (He was constitutionally permitted to run because a third term would not have been consecutive with his previous two terms.) Rafsanjani had several more conservative opponents, three of whom had ties to the Revolutionary Guard: Ali Larijani (see **Table 1**); Mohammad Baqer Qalibaf (see **Table 1**); and Tehran mayor Mahmoud Ahmadinejad. Former Guard commander-in-chief Mohsen Reza'i dropped out before the election was held.

In the election, the Council of Guardians narrowed the field of candidates to 8 out of the 1,014 persons who filed. (In the 2001 presidential election, the Council permitted 10 out of the 814 registered candidates.) On the eve of the first round, President Bush criticized the elections as unfair because of the denial of so many candidacies.<sup>3</sup> In the June 17, 2005 first round, turnout was about 63% (29.4 million votes out of 46.7 million eligible voters). With 21% and 19.5%, respectively, Rafsanjani and Ahmadinejad moved to a run-off. Ahmadinejad won a landslide victory in the June 24 runoff, receiving 61.8% to Rafsanjani's 35.7%. Turnout was 47%, less than the first round, suggesting that reformists did not turn out in large numbers to prevent Ahmadinejad's election. He took office on August 6, 2005.

**Ahmadinejad Election, Government, and Popularity.** Since taking office, Ahmadinejad has inflamed world opinion with several anti-Israel statements, the first of which was stated at an October 26, 2005, Tehran conference entitled "A World Without Zionism" that "Israel should be wiped off the map" and that "anybody who recognizes Israel will burn in the fire of the Islamic nations' fury." A similar point of contention was his insistence on the holding of a December 2006 conference in Tehran questioning the Holocaust. A U.N. Security Council statement and Senate and House resolutions (H.Res. 523 and S.Res. 292), passed in their respective chambers, condemned the statement. On June 3, 2007, Ahmadinejad said that Hezbollah in Lebanon and Hamas in the Palestinian territories had pressed "the countdown button for the destruction of the Zionist regime...."

Some Iranian leaders and portions of the population appear to be concerned that Ahmadinejad's statements on Israel and open defiance of the international community on the nuclear issue — for example, referring to the Security Council resolutions discussed below as "torn pieces of paper" — are isolating Iran. The results of the December 15, 2006, municipal council and Assembly of Experts elections showed setbacks for Ahmadinejad supporters. His supporters won only 3 out of the 15 seats on the Tehran city council, with similar results in other major cities. Ahmadinejad's sister lost her bid for a Tehran council seat. Supporters of rival conservative Qalibaf won a majority, and the reformists regrouped and fared unexpectedly well, winning four of the seats. Just before the elections, students protested Ahmadinejad during a speech at Tehran's Amir Kabir University, a possible preview of his waning popularity.

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<sup>3</sup> "Bush Criticizes Iran Election Process as Unfair." Reuters, June 16, 2005.

### **Mahmoud Ahmadinejad**

First non-cleric to be president of the Islamic republic since the assassination of then president Mohammad Ali Rajai in August 1981. About 50, he campaigned as a “man of the people,” the son of a blacksmith who lives in modest circumstances, who would promote the interests of the poor and return government to the principles of the Islamic revolution during the time of Ayatollah Khomeini. His official biography says he served with the “special forces” of the Revolutionary Guard, and he served subsequently (late 1980s) as a deputy provincial governor. With his momentum from the first round, and backing from his “Isargaran” faction composed of former Guard and Basij (volunteer popular forces) leaders and other hardliners. U.S. intelligence reportedly determined he was not, as was thought by some, one of the holders of the 52 American hostages during November 1979–January 1981. Other accounts say Ahmadinejad believes his mission is to prepare for the return of the 12<sup>th</sup> “Hidden” Imam, whose return from occultation would, according to Twelver Shiite doctrine, be accompanied by the establishment of Islam as the global religion. In an October 2006 address, Ahmadinejad said, “I have a connection with God.” For more information, see CRS Report RS22569, *Iran: Profile and Statements of President Mahmoud Ahmadinejad*, by Hussein Hassan.

Several experts believe that Supreme Leader Khamene’i is trying to curb Ahmadinejad’s authority in order to limit confrontation with the international community. The first decision that strengthened the view that Khamene’i seeks to constrain Ahmadinejad was the October 2005 grant of new governmental supervisory powers to the Expediency Council. The second was the July 2006 creation of a ten-person advisory “Foreign Policy Committee” consisting of former defense and foreign ministers. In January 2007, an Iranian newspaper owned by Khamene’i admonished Ahmadinejad to remove himself from the nuclear issue. However, Ahmadinejad’s ties to the Revolutionary Guard and other revolutionary institutions, likely positions him to weather criticism from senior leaders and others.

Ahmadinejad also has tried to protect his position by appealing to the lower classes. He has directed the raising of some wages, cancelled some debts of farmers, and increased social welfare payments and subsidies, although perhaps not to the degree he had promised in his campaign. His distributive policies have been supported, in part, by relatively high oil prices, which are nearly \$60 per barrel, and the budget he submitted in January 2007 assumes an oil price of only \$33 per barrel. The relative health of Iran’s budget could help Iran minimize the effects of international sanctions resulting from Iran’s nuclear defiance. Still, Ahmadinejad has not moved to correct economic structural imbalances, such as the dependence on oil revenues, which account for about 20% of Iran’s gross domestic product (GDP), and its extensive imports of refined gasoline. Major economic sectors or markets are controlled by the quasi-statal “foundations” (*bonyads*), run by powerful former officials, and there are special trading privileges for them and the bazaar merchants, a key constituency for some conservatives. In a January 2007 letter, 150 parliamentarians in the 290-seat Majles criticized his economic results, including rising inflation. Ahmadinejad’s political base among the poor might be further undermined by the May 2007 raising of gasoline prices (by a few cents per gallon) and institution of some gas rationing – moves intended to curb consumption that forces Iran to import refined gasoline.

**Table 2. Selected Economic Indicators**

Economic Growth (2005)	4.8%
Proven Oil Reserves	100 billion barrels (fifth in world)
Refined Gasoline Imports	\$5 billion value per year (60% from European oil trader Vitol)
Oil Production	4 million barrels per day (mbd)
Oil Exports	2.4 mbd
Major Oil Customers	China - 450,00 barrels per day (bpd); about 4% of China's oil imports; Japan - 800,000 bpd, about 12% of oil imports;; South Korea - about 9% of its oil imports; Italy - 9% from Iran; France - 7%; Belgium - 14%; Turkey - 22%; Greece - 24%; India - 150,000 bpd (10% of its oil imports)
Refined Gasoline Suppliers	India, Kuwait, Turkey, Venezuela
Some Major Trading Partners	Japan (\$7.5 billion exports to Japan); China (\$3.9 billion exports, \$2.7 billion imports); Italy (\$5.3 billion equally divided import/export); Germany (\$4.9 billion imports from); France (\$3.2 billion imports)
Export Credit Guarantee Exposure Limit	Italy - \$6.2 billion; Germany \$5.4 billion; France - \$1.4 billion; Spain - \$1 billion, and Austria - \$1 billion
Major Non-Oil Investments	Renault (France) and Mercedes (Germany)- automobile production in Karaj, Iran - valued at \$370 million; Renault (France), Peugeot (France) and Volkswagen (Germany) - auto parts production; Turkey - Tehran airport improvement, hotels; China - shipbuilding on Qeshm Island, aluminum factory in Shirvan, cement plant in Hamadan; United Arab Emirates financing of Esfahan Steel Company; India - steel plant; S. Korea - steel plant in Kerman Province; S. Korea and Germany - \$1.7 billion intended investment to expand Esfahan refinery.
Trade With U.S. (2006)	\$242 million (trade is severely restricted by U.S. sanctions, as discussed later). Of which: exports to U.S. - \$157 million. Imports from U.S. - \$85 million.
Foreign Exchange Reserves	\$40 billion+
External Debt	\$19 billion (2005 est.)
Income Per Capita (purchasing power parity)	\$8,100 per year
Unemployment Rate	11%+

**Source:** CIA World Factbook, various press, IMF.

## Dissidents and Opposition Organizations

The regime appears generally stable for now, but there are factions and movements that are actively seeking to substantially modify its policies or to replace it outright. The groups that seek to replace the regime, by accounts of observers, have little popularity inside Iran.

**Regime Members-Turned Dissidents.** The regime is highly concerned about those dissidents who previously held senior regime positions. These dissidents are popular inside Iran, but their ascendancy, were it to occur, might not fundamentally alter Iran's relations with the United States. One such figure, Ayatollah Hossein Ali Montazeri, was released in January 2003 from several years of house arrest, but he remains under scrutiny. He had been Khomeini's designated successor until 1989, when Khomeini dismissed him for allegedly protecting intellectuals and other opponents of clerical rule. Another senior cleric who takes this position, Ayatollah Mohammad Kazemeini Boroujerdi, was arrested on October 8, 2006. Other such dissidents include theoretician Abd al-Karim Soroush, former Interior Minister Abdollah Nuri, and former hostage-holder Abbas Abdi, who had been arrested for publishing an opinion poll purporting to show that the Iranian public favors restoring relations with the United States.

**Regime Critics.** Some dissidents were not high level regime figures, but have sought to challenge or expose the regime's practices from inside Iran. One example is journalist Akbar Ganji, who conducted hunger strikes to protest regime oppression. He was released on schedule on March 18, 2006 after sentencing in 2001 to six years in prison for alleging high-level involvement in a series of murders of Iranian dissident intellectuals that the regime had blamed on "rogue agents" in the security apparatus. The Bush Administration issued a statement calling for his release on July 12, 2005. In the 109<sup>th</sup> Congress, H.Res. 414 expressed the sense of Congress that the United States and United Nations should condemn Iran's imprisonment of him.

Another example was a Canadian journalist of Iranian origin, Zahra Kazemi, who died in 2003, allegedly of beating, while in Iranian detention. She had been detained in July 2003 for filming outside Tehran's Evin prison. An intelligence agent who allegedly conducted the beating was acquitted on July 25, 2004, prompting accusations that the investigation and trial were unfair. The prosecutor in her case, Saeed Mortazavi, allegedly responsible for numerous human rights abuses, was Iran's representative to the inaugural meeting of the U.N. Human Rights Council.

**People's Mojahedin Organization of Iran (PMOI).** Of the groups seeking to replace the regime outright, one of the best known is the People's Mojahedin Organization of Iran (PMOI).<sup>4</sup> Secular and left-leaning, it was formed in the 1960s to try to overthrow the Shah of Iran and advocated a form of Marxism blended with Islamic tenets. It allied with pro-Khomeini forces during the Islamic revolution and supported the November 1979 takeover of the U.S. Embassy in

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<sup>4</sup> Other names by which this group is known is the Mojahedin-e-Khalq Organization (MEK or MKO) and the National Council of Resistance (NCR).

Tehran but was later purged and driven into exile. In June 2003, France arrested about 170 PMOI members, including its co-leader Maryam Rajavi (wife of PMOI founder Masoud Rajavi, whereabouts unknown); she was released and remains based in France, and is occasionally received by European parliamentarians and other politicians. In December 2006, a European Union (EU) court struck down EU's freezing of the PMOI's assets in Europe.

Even though it is an opponent of Tehran, since the late 1980s the State Department has refused contact with the PMOI and its umbrella organization, the National Council of Resistance (NCR). The State Department designated the PMOI as a foreign terrorist organization (FTO) in October 1997<sup>5</sup> and the NCR was named as an alias of the PMOI in the October 1999 re-designation. The FTO designation was prompted by PMOI attacks in Iran that sometimes killed or injured civilians — although the group does not appear to purposely target civilians. In August 14, 2003, the State Department designated the NCR offices in the United States an alias of the PMOI, and NCR and Justice Department authorities closed down those offices. In November 2002, a letter signed by about 150 House Members was released, asking the President to remove the PMOI from the FTO list.<sup>6</sup>

The State Department report on international terrorism for 2006 asserts that the organization — and not just a radical element of the organization as the group asserts — was responsible for the alleged killing of seven American defense advisers to the former Shah in 1975-1976. The State Department report has, in the past, noted the group's promotion of women in its ranks, but the report for 2006 emphasizes the group's "cult-like" character, including indoctrination of its members and separation of family members from its activists.

The group's alliance with Saddam Hussein's regime in the 1980s and 1990s contributed to the U.S. shunning of the organization. U.S. forces attacked PMOI military installations in Iraq during Operation Iraqi Freedom and negotiated a ceasefire with PMOI military elements in Iraq, requiring the approximately 3,350 PMOI fighters to remain confined to their Ashraf camp near the border with Iran. Its weaponry is in storage, guarded by U.S. and now Bulgarian military personnel. Another 350 PMOI fighters have taken advantage of an arrangement between Iran and the ICRC for them to return home if they disavow further PMOI activities. Another 200 are in the process of leaving Ashraf if a host country could be found.

Press reports say that some Administration officials want the group removed from the FTO list and want a U.S. alliance with it against the Tehran regime.<sup>7</sup> Those advocating that policy took heart from the U.S. decision in July 2004 to grant the Ashraf detainees "protected persons" status under the 4<sup>th</sup> Geneva Convention, meaning they will not be extradited to Tehran or forcibly expelled as long as U.S.

<sup>5</sup> The designation was made under the authority of the Anti-Terrorism and Effective Death Penalty Act of 1996 (P.L. 104-132).

<sup>6</sup> "Removal of Iran Group From Terror List Sought." *Washington Post*, November 23, 2002.

<sup>7</sup> Cloud, David. "U.S., Iran Hit Bumpy Terrain on Road to Rapprochement." *Wall Street Journal*, May 12, 2003.

forces remain in Iraq. At the same time, some Iraqi leaders from pro-Iranian factions, including Prime Minister Nuri al-Maliki, have said that the group would be expelled from Iraq some time in 2007.

**The Son of the Former Shah.** Some Iranian exiles, as well as some elites still in Iran, want to replace the regime with a constitutional monarchy led by Reza Pahlavi, the U.S.-based son of the late former Shah and a U.S.-trained combat pilot. However, he does not appear to have large-scale support inside Iran. In January 2001, the Shah's son, who is about 50 years old, ended a long period of inactivity by giving a speech in Washington D.C. calling for unity in the opposition and the institution of a constitutional monarchy and democracy in Iran. He has since broadcast messages into Iran from Iranian exile-run stations in California.<sup>8</sup> His political adviser is MIT-educated Shariar Ahy.

**Other Exiled Activists.** Numerous other Iranians in exile want to see a change of regime in Tehran. Many of them are based in California, where there is a large Iranian-American community, and there are about 25 small-scale radio or television stations that broadcast into Iran. Some U.S.-based activists are the following:

- *The Abdorrahman Boroumand Foundation.* This foundation, led by two Boroumand sisters, is trying to document human rights abuses in Iran.
- *The Iran Human Rights Documentation Center (IHDC).* The center is run by persons mostly of Iranian origin and affiliated with Yale University's Griffin Center for Health and Human Rights. It is documenting abuses in Iran, using contacts with Iranians in Iran.
- *The National Iranian American Council (NIAC).* The organization's objective is to build and expand networks of Iranian-American organizations, but it is generally considered an advocate of U.S. engagement with Tehran.
- *Amir Abbas Fakravar.* A leader of the student dissidents who emerged in the July 1999 anti-regime student riots. A former medical student, he served time in Iranian prisons.
- *Iran of Tomorrow Movement.* This group claims to have “resistance cells” inside Iran. It operates a 24-hour satellite TV station and a radio broadcast. A related movement, “XTV,” advocates the non-violent overthrow of the regime and is close to the Shah's son.
- *Channel One TV/Radio Pedar.* Run by Mr. Shahram Homayoun, a Los Angeles-based exile, this station broadcasts to Iran one hour each day.

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<sup>8</sup> Kampeas, Ron. “Iran’s Crown Prince Plots Nonviolent Insurrection from Suburban Washington.” Associated Press, August 26, 2002.

- *Rang A Rang Television.* Led by Davar Veiseh and based in Vienna, Virginia, advocates regime change through peaceful means.

No U.S. assistance has been provided to exile-run stations. However, the conference report on the FY2006 regular foreign aid appropriations, P.L. 109-102, states the sense of Congress that the Administration consider such financial support.

## **Human Rights and Religious Freedom**

Iran's leaders have taken numerous steps to suppress dissent or challenges not only from the groups discussed above but also by civil society leaders, labor leaders, and minorities that are considered a potential threat to the Persian majority (Persians are about 55% of the population). The State Department's human rights report for 2006, released March 6, 2007, said Iran's already poor human rights record "worsened" during the year. That report, and the 2006 State Department "religious freedom" report (released September 15, 2006), cite Iran for widespread human rights abuses including summary executions, disappearances, torture, arbitrary arrest and detention, and discrimination against women.<sup>9</sup> Specific trends or major cases include the following:

- In an effort to restrict Since 2000, hardliners in the judiciary have closed hundreds of reformist newspapers, although many have tended to reopen under new names, and authorities have imprisoned or questioned several editors and even some members of the Majles. Iran also has blocked hundreds of pro-reform websites. On December 19, 2005, Ahmadinejad banned Western music from state media, reviving a cultural decree from Ayatollah Khomeini's rule.
- The State Department reports that the regime has forcibly repressed strikes by the 17,000-member Tehran bus drivers union, including arresting its leaders.
- On the issue of women's rights, the most widely reported issue is the requirement that women fully cover themselves in public, generally with a garment called a *chador*. There has been a progressive relaxation of enforcement of this rule, particularly during Khatemi's presidency. To date, Ahmadinejad has not reversed that relaxation. However, on March 4, 2007, the regime arrested 31 women activists who were protesting the arrest in 2006 of several other women's rights activists; all but 3 of the 31 were released by March 9. In May 2006, the Majles passed a bill calling for increased public awareness of Islamic dress, an apparent attempt to persuade women not to violate the dress code or wear Western fashion. The bill did not, as some outside Iran intimated, contain any requirement or suggestion that members of Iran's minority groups wear badges or

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<sup>9</sup> For text of both, see [<http://www.state.gov/g/drl/rls/hrrpt/2006/78852.htm>]; see also [<http://www.state.gov/g/drl/rls/irf/2005/51599.htm>].

distinctive clothing. In April 2006, Ahmadinejad directed that women be allowed to attend soccer matches, but the Supreme Leader reversed that move. Women can vote and run in parliamentary elections, but their candidacies for president have routinely been barred by the Council of Guardians. Iranian women can drive, and many work outside the home, including owning and running their own businesses. There are thirteen women in the 290-seat Majles.

- The State Department report adds that, during 2006, the government increased controls over use of the internet because citizens have increasingly turned to that medium as a source for news and political debate. In one specific major development during 2006, in September the government closed a major reformist daily newspaper, *Shargh*, citing its publishing of a satirical cartoon with political overtones.
- Each year since 1999, the State Department religious freedom report has named Iran as a “Country of Particular Concern” under the International Religious Freedom Act, and no significant improvement in Iran’s practices on this issue was noted in the International Religious Freedom report for 2006. (No sanctions have been added because of this designation, on the grounds that Iran is already subject to extensive U.S. sanctions.)
- Iran is repeatedly cited for repression of the Baha’i community, which Iran’s Shiite Muslim clergy views as a heretical sect. In March 2006, U.N. Special Rapporteur on Freedom of Religion or Belief revealed the existence of an Iranian letter directing greater domestic surveillance of the Baha’is. In the 1990s, several Baha’is were executed for apostasy (Bahman Samandari in 1992; Musa Talibi in 1996; and Ruhollah Ruhani in 1998). Another, Dhabihullah Mahrami, was in custody since 1995 and died of unknown causes in prison in December 2005. In February 2000, Iran’s Supreme Court set aside the death sentences against three other Baha’is. Several congressional resolutions have condemned Iran’s treatment of the Baha’is, including S.Con.Res. 57 (106<sup>th</sup> Congress), which passed the Senate July 19, 2000, and H.Con.Res. 257, which passed the House on September 19, 2000. In the 109<sup>th</sup> Congress, partly in response to a May 2006 wave of arrests of Baha’is in Shiraz, H.Con.Res. 415, requests the Administration emphasize that it regards Iran’s treatment of the Baha’is as a significant factor in U.S. Iran policy.
- On the treatment of Jews (along with Christians, a “recognized minority,” with one seat in the Majles), the 30,000-member Jewish community (the largest in the Middle East aside from Israel) enjoys somewhat more freedoms than Jewish communities in several other Muslim states. However, in practice the freedom of Iranian Jews to practice their religion is limited, and Iranian Jews remain reluctant to speak out for fear of reprisals. During 1993-1998, Iran executed

five Jews allegedly spying for Israel. In June 1999, Iran arrested 13 Jews (mostly teachers, shopkeepers, and butchers) from the Shiraz area that it said were part of an “espionage ring” for Israel. After an April-June 2000 trial, ten of the Jews and two Muslims accomplices were convicted (July 1, 2000), receiving sentences ranging from 4 to 13 years. An appeals panel reduced the sentences, and all were released by April 2003.

- The State Department reports note other discrimination against Sufis and Sunni Muslims, although abuses against Sunnis could reflect that minority ethnicities, including Kurds, are mostly Sunnis. In addition, the regime repressed 2006 unrest among the minority Azeri population, as well as Arabs in the southern province of Khuzestan.
- The June 6, 2006 (latest annual), State Department “Trafficking in Persons” report places Iran in Tier 3 (worst level) for failing to take action to prevent trafficking in persons. Girls purportedly are trafficked for sexual exploitation within Iran and from Iran to Turkey, Pakistan, and the Persian Gulf states.

Successive administrations have not generally considered Iran’s human rights practices as a strategic threat to U.S. interests, but the Bush Administration has highlighted Iran’s human rights record as part of an effort to build international consensus to pressure Iran. The Administration has established with European allies and Canada a “Human Rights Working Group” that coordinates a response to Iran’s human rights abuses. A special U.N. Human Rights Commission monitoring mission for Iran, consisting of reports by a “Special Representative” on Iran’s human rights record, was conducted during 1984-2002. Iran has since agreed to “thematic” monitoring consisting of periodic U.N. investigations of specific aspects of Iran’s human rights record. Iran is a party to the two international human rights covenants.

## **Iran’s Strategic Capabilities and Weapons of Mass Destruction Programs**

The Administration’s “National Security Strategy” document released March 16, 2006, says the United States “may face no greater challenge from a single country than from Iran,” an assessment based largely on Iran’s growing weapons of mass destruction (WMD) programs and its ability to exert influence in the region.<sup>10</sup> Iran’s advanced and other conventional weaponry is deemed to pose a less significant threat than its WMD, but Iran’s forces could still, in some cases, threaten U.S. forces and allies in the Gulf region, as discussed in the section later in this paper on military action and scenarios.

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<sup>10</sup> See [<http://www.whitehouse.gov/nsc/nss/2006/>].

## Conventional Military

Iran's conventional armed forces are large but widely considered relatively combat ineffective against a well-trained military such as that of the United States. Iran's forces are believed to be sufficiently effective to deter or fend off conventional threats from Iran's relatively weak neighbors such as post-war Iraq, Turkmenistan, Azerbaijan, and Afghanistan but are largely lacking in logistical ability to project power much beyond Iran's borders. Lacking such combat capability, Iran has avoided cause for conflict with its more militarily capable neighbors such as Turkey and Pakistan. Iran's Revolutionary Guard Corps, which also controls the *Basij* volunteer militia that enforces adherence to Islamic customs, is generally loyal to the hardliners politically. (In the 110<sup>th</sup> Congress, a provision of H.R. 1400 and of S. 970 calls for the Revolutionary Guard to be designated a foreign terrorist organization, or FTO.) More information on Iran's military and how it might perform in combat against the United States is discussed under "military options" later in this paper.

**Table 3. Iran's Military Arsenal**

Military Personnel	Tanks	Surface-Air Missiles	Combat Aircraft	Ships	Defense Budget (billions U.S \$)
545,000 (regular military and Revolutionary Guard Corps (IRGC). IRGC is about one-third of total force.	1,693 (incl. 480 T-72)	150 I-Hawk plus some Stinger	280 (incl. 25 MiG-29 and 30 Su-24)	200 (incl. 10 Chinese-made Hudong, 40 Boghammer, 3 frigates) Also has 3 Kilo subs	6.6
Number of "Qods Forces" of IRGC		Approximately 3,000 total in the Qods Force, which promotes Iran's regional and global objectives through advisory support to pro-Iranian factions in Lebanon, Iraq, Persian Gulf states, Afghanistan, and Central Asia. Also operates worldwide intelligence network to give Iran possible terrorist option and to assist in procurement of WMD-related technology.			
Ship-launched cruise missiles		Iran is able to arm its patrol boats with Chinese-made C-802 cruise missiles. Iran also has Chinese-supplied HY-2 Seerseekers emplaced along Iran's coast. Both systems could be used to try to block the Strait of Hormuz, to attack Persian Gulf state oil export terminals, or to threaten shipping through that waterway. <sup>a</sup>			

Military Personnel	Tanks	Surface-Air Missiles	Combat Aircraft	Ships	Defense Budget (billions U.S \$)	
Midget Subs		Iran is said to possess several midget submarines, possibly purchased assembled or in kit form from North Korea. Iran could try to use these vessels in any conflict, although some experts believe that U.S. naval forces could detect and counter this equipment, particularly the larger vessels, without substantial difficulty.				
Anti-aircraft missile systems		Russia has sold and now delivered to Iran (January 2007) 30 anti-aircraft missile systems (Tor M1), worth over \$1 billion. A press report in late September 2006 said that Ukraine has agreed to sell Iran the Kolchuga radar system that can improve Iran's detection of combat aircraft.				

a. Jacoby testimony before the Senate Intelligence Committee. February 16, 2005.

## Nuclear Program

Some observers believe that Iran and the international community have reached a crisis over Iran's nuclear program. Many outside experts and governments believe that Iran is attempting to achieve a nuclear weapons capability, and stated U.S. policy is to prevent that outcome. On September 5, 2006, President Bush said explicitly "I am not going to allow [a nuclear-armed Iran]."<sup>11</sup> The International Atomic Energy Agency (IAEA), despite intensified inspections and other means of investigation since late 2002, says it cannot verify that Iran's program is purely peaceful, and several of its reports (January 31, 2006, and February 27, 2006) say it found documents that show a possible "military nuclear dimension" to Iran's program.

Iranian leaders insist that Iran's nuclear program is for electricity generation because its oil resources are finite and that enriching uranium to make nuclear fuel is allowed under the 1968 Nuclear Non-Proliferation Treaty,<sup>12</sup> to which Iran is a party. An analysis was published by the National Academy of Sciences challenging the U.S. view that Iran is petroleum rich and therefore has no need for a nuclear power program. According to the analysis, the relative lack of investment is causing a rapid decline in Iranian oil exports to the point where Iran might have negligible

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<sup>11</sup> Schweid, Barry. "Bush: Won't Allow A Nuclear-Armed Iran." Associated Press, September 5, 2006.

<sup>12</sup> For Iran's arguments about its program, see Iranian paid advertisement "An Unnecessary Crisis — Setting the Record Straight About Iran's Nuclear Program," in the *New York Times*, November 18, 2005. P. A11.

exports of oil by 2015.<sup>13</sup> U.S. officials say that Iran's vast gas resources make a nuclear energy program unnecessary.

Despite Iran's professions that WMD is inconsistent with its ideology, Iran's factions appear to agree on the utility of a nuclear weapons capability as a means of ending its perceived historic vulnerability to U.S. domination and a symbol of Iran as a major nation. Others believe Iran sees nuclear weapons as instruments to dominate the Persian Gulf, and these experts believe an Iranian nuclear weapon would dramatically shift the balance of power in the Gulf/Middle East in Iran's favor. There are also fears Iran might transfer WMD to extremist groups or countries.

Although suspicions of Iran's intentions are widely shared, there is disagreement over the urgency of the issue. The CIA reportedly has found no firm evidence that Iran is trying to develop a nuclear weapon.<sup>14</sup> On June 3, 2007, Secretary of Defense Gates said it is the "general view" of the U.S. intelligence community that Iran could develop a nuclear device "probably sometime in the period 2010-2011 or 2014-2015."<sup>15</sup> Other experts focus on a so-called "point of no return," a point at which Iran has the expertise and proficiency to enrich uranium to weapons grade levels. Some press reports in early 2007 said that Iran's program was facing significant bottlenecks and that it might not yet have mastered centrifuge cascade technology. However, the IAEA report of May 23, 2007 said that Iran is running at least 1,300 centrifuges (8 lines of 164 centrifuges each), suggesting it might have overcome some, but not all, of its technological roadblocks to high enrichment.

**European Diplomatic Efforts/Paris Agreement.** International attention to Iran's nuclear program increased in 2002 after Iran confirmed PMOI allegations that it was building two facilities that could be used to produce fissile material useful for a nuclear weapon: a uranium enrichment facility at Natanz and a heavy water production plant at Arak, considered ideal for the production of plutonium. (In November 2006, the IAEA, at U.S. urging, declined to provide technical assistance to the Arak facility on the grounds that it was likely for proliferation purposes.) It was also revealed in 2003 that the founder of Pakistan's nuclear weapons program, Abdul Qadeer (A.Q.) Khan, sold Iran nuclear technology and designs.<sup>16</sup> At the same time, concerns continued over Russia's work, under a January 1995 contract, on an \$800 million nuclear power plant at Bushehr. Russia insisted that Iran sign an agreement under which Russia would provide reprocess the plant's spent nuclear material; that agreement was signed on February 28, 2005. The

<sup>13</sup> Stern, Roger. "The Iranian Petroleum Crisis and United States National Security," *Proceedings of the National Academy of Sciences of the United States of America*. December 26, 2006.

<sup>14</sup> "CIA Analysis Finds No Iranian Nuclear Weapons Drive: Report." Available online at [[http://fullcoverage.yahoo.com/s/afp/20061119/ts\\_afp/usiranuclearweaponsmilitary\\_061119034024](http://fullcoverage.yahoo.com/s/afp/20061119/ts_afp/usiranuclearweaponsmilitary_061119034024)]. November 19, 2006.

<sup>15</sup> Burns, Robert. "Gates Urges Penalties Against Tehran 'Right Now.'" *Washington Times*, June 3, 2007.

<sup>16</sup> Lancaster, John and Kamran Khan. "Pakistanis Say Nuclear Scientists Aided Iran." *Washington Post*, January 24, 2004.

plant was expected to become operational in 2007, but, in March 2007, Russia told Iran it would not fuel the reactor until Iran is in compliance with the U.N. resolutions discussed below. Russia has pulled most of its 800 technicians out of the site. As part of the contract, Russia has trained about 700 Iranian nuclear engineers.

In 2003, France, Britain, and Germany (the “EU-3”) opened a separate diplomatic track to curb Iran’s program. On October 21, 2003, Iran pledged, in return for peaceful nuclear technology, to (1) fully disclose its past nuclear activities, (2) to sign and ratify the “Additional Protocol” to the NPT (allowing for enhanced inspections), and (3) to suspend uranium enrichment activities. Iran signed the Additional Protocol on December 18, 2003, although the Majles has not yet ratified it. Iran abrogated the agreement after the IAEA reports of November 10, 2003, and February 24, 2004, stated that Iran had violated its NPT reporting obligations over an 18-year period.

In the face of the U.S. threat to push for Security Council action, the EU-3 and Iran reached a more specific November 14, 2004, “Paris Agreement,” committing Iran to suspend uranium enrichment (as of November 22, 2004) in exchange for renewed trade talks and other aid.<sup>17</sup> EU-3 - Iran negotiations on a permanent nuclear pact began on December 13, 2004, and related talks on a trade and cooperation accord (TCA) began in January 2005. On March 11, 2005, the Bush Administration announced it would support, but not join, the EU-3 talks by offering to drop U.S. objections to Iran’s application to the World Trade Organization (which it did in May 2005) and to consider sales of U.S. civilian aircraft parts to Iran.

**Reference to the Security Council.** The Paris Agreement broke down just after Ahmadinejad’s election, when Iran rejected as insufficient an EU-3 “final settlement” plan that offered to assist Iran with peaceful uses of nuclear energy (medicine, agriculture, and other uses) and provide limited security guarantees in exchange for Iran’s (1) permanently ending uranium enrichment; (2) dismantling the Arak reactor; (3) agreement to no-notice nuclear inspections; and (4) pledge not to leave the NPT (which has a legal exit clause). On August 8, 2005, Iran broke the IAEA seals on its uranium “conversion” (one step before enrichment) facility at Esfahan and began conversion. On September 24, 2005, the IAEA Board voted to declare Iran in non-compliance with the NPT and to refer the issue to the Security Council,<sup>18</sup> but no time frame was set for the referral. Iran did not cease uranium conversion (and now has about 200 tons of converted uranium, enough for 20 nuclear weapons if enriched). The Administration supported a November 2005 Russian proposal to Iran to establish a facility in Russia at which Iranian uranium would be enriched, thereby enabling Iran to claim it had retained its right to enrich. Iran did not accept the proposal.

<sup>17</sup> For text of the agreement, see [[http://www.iaea.org/NewsCenter/Focus/IaeaIran/eu\\_iran\\_14112004.shtml](http://www.iaea.org/NewsCenter/Focus/IaeaIran/eu_iran_14112004.shtml)].

<sup>18</sup> Voting in favor: United States, Australia, Britain, France, Germany, Canada, Argentina, Belgium, Ghana, Ecuador, Hungary, Italy, Netherlands, Poland, Portugal, Sweden, Slovakia, Japan, Peru, Singapore, South Korea, India. Against: Venezuela. Abstaining: Pakistan, Algeria, Yemen, Brazil, China, Mexico, Nigeria, Russia, South Africa, Sri Lanka, Tunisia, and Vietnam.

In January 2006, Iran resumed enrichment activities, and on February 4, 2006, the IAEA board voted 27-3<sup>19</sup> for a resolution to report Iran to the U.N. Security Council. On March 29, 2006, the Council agreed on a Council presidency “statement” setting a 30-day time limit (April 28, 2006) for Iran to cease enrichment.<sup>20</sup> However, because of opposition by Russia and China to immediately punishing Iran, on May 8, 2006, the Administration said it would support another diplomatic overture. At the same time, the Administration rebuffed a letter from Ahmadinejad to President Bush<sup>21</sup> as offering no new nuclear proposals.

**U.S. Offer to Join Talks and Future Steps.** In an effort to strengthen the diplomacy, as well as to build support for possible international or multilateral sanctions, the Administration offered on May 31, 2006, to join the nuclear talks with Iran if Iran first suspends its uranium enrichment. Such talks would center on a package of incentives and possible sanctions that were agreed to on June 1, 2006, by a newly-formed group of negotiating nations, the so-called “Permanent Five Plus 1” (P5+1: United States, Russia, China, France, Britain, and Germany). EU representative Javier Solana formally presented the offer to Iran on June 6; U.S. and EU officials say that this offer remains open. Iran-Solana negotiations continued on the package in April and May 2007, without result to date.

### **Reported Incentives<sup>22</sup>**

- Negotiations on an EU-Iran trade agreements and acceptance of Iran into the World Trade Organization.
- Easing of U.S. sanctions to permit sales to Iran of commercial aircraft or aircraft parts.
- Sale to Iran of a light-water nuclear reactor and guarantees of nuclear fuel, and possible sales of light-water research reactors for medicine and agriculture applications.
- An “energy partnership” between Iran and the EU, including help for Iran to modernize its oil and gas sector and to build export pipelines.
- Support for a regional security forum for the Persian Gulf, and support for the objective of a WMD free zone for the Middle East.
- The possibility of eventually allowing Iran to resume uranium enrichment if it complies with all outstanding IAEA requirements

<sup>19</sup> Voting no: Cuba, Syria, Venezuela. Abstaining: Algeria, Belarus, Indonesia, Libya, South Africa.

<sup>20</sup> See [<http://daccessdds.un.org/doc/UNDOC/GEN/N06/290/88/PDF/N0629088.pdf?OpenElement>].

<sup>21</sup> See [<http://www.president.ir/eng/ahmadinejad/cronicnews/1385/02/19/index-e.htm#b3>].

<sup>22</sup> One source purports to have obtained the contents of the package from ABC News: [<http://www.basicint.org/pubs/Notes/BN060609.htm>]

and can prove that its nuclear program is purely for peaceful purposes.

### **Reported Sanctions**

- Denial of visas for Iranians involved in Iran's nuclear program and for high-ranking Iranian officials.
- A freeze of assets of Iranian officials or institutions and freeze of Iran's assets abroad and a ban on some financial transactions with Iran.
- A ban on sales of advanced technology and of arms to Iran; and a ban on sales to Iran of gasoline and other refined oil products.
- An end to support for Iran's application to the WTO.

**Resolution 1696.** Iran said it would give a final response to the offer by August 22, 2006, beyond the deadline for response set by the six powers (July 12)—a time frame set to coincide with the G-8 summit in St. Petersburg (July 15, 2006). On July 31, 2006, the Security Council voted 14-1 (Qatar voting no) for U.N. Security Council Resolution 1696, giving Iran until August 31, 2006, to fulfill the longstanding IAEA nuclear demands (enrichment suspension, etc). Purportedly in deference to Russia and China, it was passed under Article 40 of the U.N. Charter, which makes compliance mandatory, but not under Article 41, which refers to economic sanctions, or Article 42, which would authorize military action. It called on U.N. member states not to sell Iran WMD-useful technology.

On August 22, 2006, Iran submitted a 21-page formal response to the June 6 offer by the six powers. The text of Iran's response was not disclosed, but it reportedly offered negotiations on a broader roadmap of engagement with the West — and sought provision of guarantees that the United States would not seek to change Iran's regime — in exchange for acceptance of the international demands on the nuclear program. Iran did not offer to suspend uranium enrichment in advance of negotiations.

**Resolution 1737.** With the backing of the P5+1, chief EU negotiator Javier Solana negotiated with Iran to try arrange a temporary enrichment suspension. A round of talks, in Berlin, concluded on September 28, 2006, without agreement. After almost four months of negotiations during which Russia and, to a lesser extent, China, argued that diplomacy with Iran would yield greater results than would sanctions, the Security Council agreed to U.N. Security Council Resolution 1737. It was passed unanimously on December 23, 2006, under Chapter 7, Article 41 of the U.N. Charter. It prohibits sale to Iran — or financing of such sale — of technology that could contribute to Iran's uranium enrichment or heavy-water reprocessing activities. It also required U.N. member states to freeze the financial assets of ten named Iranian nuclear and missile firms, including those in **Table 4**.

The Resolution did not mandate the banning of travel by these personalities, but called on member states not to admit them. It also provided an exemption for the

Bushehr reactor, which Russia had sought. The EU foreign ministers agreed on February 12, 2007, to freeze the assets of the named entities and to impose broader restrictions on entities that might later be identified as assisting Iran's WMD program and to prevent the training of Iranians in Europe that might contribute to Iran's programs. In reaction, the Majles called for the government to adjust its cooperation with IAEA inspections.

**Resolution 1747.** Resolution 1737 demanded enrichment suspension by February 21, 2007. An IAEA report sent to Board member countries that day reportedly corroborated Iran's statements of defiance, saying it is continuing its enrichment activities. In London on March 8, 2007, the P5+1 began formal discussions on a new Chapter 7 Security Council resolution that would presumably impose additional sanctions on Iran, quickly reaching agreement. On March 24, 2007, Resolution 1747 was adopted unanimously:

- It added 10 military/WMD-related entities; 3 Revolutionary Guard entities; 8 persons, and 7 Revolutionary Guard commanders listed in **Table 4**.
- It bans arms transfers by Iran, a provision targeted at Iran's alleged arms supplies to Lebanese Hezbollah and to Shiite militias in Iraq.
- It requires all countries to report to the United Nations when the sanctioned Iranian persons travel to their territories.
- It calls for (but does not require) countries to refrain from selling arms or dual use items to Iran and to avoid any new lending or grants to Iran.

Resolution 1747 demands Iran suspend enrichment and comply with other previous provisions by May 24, 2007. The IAEA report of May 23, 2007 indicated that Iran did not comply, and new negotiations have begun on another resolution. Observers say that a new resolution is likely to focus on making mandatory those provisions that are only voluntary in 1737 and 1747. The potential for additional U.N. sanctions is discussed in the section on multilateral and international sanctions later in this paper.

At the same time, IAEA Director Baradei has incurred some criticism in May and June 2007 for reportedly telling the Security Council countries that it is no longer realistic to demand uranium enrichment suspension, but instead to focus on preventing industrial-scale production of enriched uranium and allowing robust inspections to ensure the uranium is not enriched to bomb-grade levels. Others have criticized him for reported policy comments taking issue with U.S. officials who advocate military action or regime change as a means of curbing Iran's nuclear program.

## **Chemical Weapons, Biological Weapons, and Missiles**

Official U.S. reports and testimony continue to state that Iran is seeking a self-sufficient chemical weapons (CW) infrastructure, and that it "may have already"

stockpiled blister, blood, choking, and nerve agents — and the bombs and shells to deliver them. This raises questions about Iran's compliance with its obligations under the Chemical Weapons Convention (CWC), which Iran signed on January 13, 1993, and ratified on June 8, 1997. These officials and reports also say that Iran "probably maintain[s] an offensive [biological weapons] BW program ... and probably has the capability to produce at least small quantities of BW agents."

**Ballistic Missiles/Warheads.** Largely with foreign help, Iran is becoming self sufficient in the production of ballistic missiles and, by U.S. accounts, already has the largest inventory of ballistic missiles in the Middle East. Tehran appears to view its ballistic missiles as an integral part of its strategy to deter or retaliate against forces in the region, including U.S. forces. The Bush Administration is seeking to establish sites in Europe, including Poland and the Czech Republic, to counter Iranian ballistic missiles.

- *Shahab-3.* Two of its first three tests of the 800-mile range *Shahab-3* (July 1998, July 2000, and September 2000) reportedly were inconclusive or unsuccessful, but Iran conducted an apparently successful series of tests in June 2003. Iran subsequently called the Shahab-3 operational, meaning that it would be capable of hitting Israel. Despite Iran's claims, some U.S. experts say the missile is not completely reliable, and Iran tested a purportedly more accurate version on August 12, 2004. Iran called the test successful, although some observers said Iran detonated the missile in mid-flight. On May 31, 2005, Iran announced it had successfully tested a solid-fuel version of the Shahab-3.
- *Warheads.* A *Wall Street Journal* report of September 14, 2005, said that U.S. intelligence believes Iran is working to adapt the Shahab-3 to deliver a nuclear warhead. Subsequent press reports say that U.S. intelligence captured an Iranian computer in mid-2004 showing plans to construct a nuclear warhead for the Shahab.<sup>23</sup> Iran denied work on such a warhead, but the IAEA is seeking additional information from Iran on the material.
- *Shahab-4.* In October 2004, Iran announced it had succeeded in extending the range of the Shahab-3 to 1,200 miles, and it added in early November 2004 that it is capable of "mass producing" this "Shahab-4." An *Agence France Presse* report of February 6, 2006, said an Iranian test of this missile in January 2006 was successful. If Iran's claims are accurate, large portions of the Near East and Southeastern Europe would be in range, including U.S. bases in Turkey. On March 31, 2006, Iran claimed to have tested a missile, possibly a *Shahab-4*, that Iran says has separately targeted warheads.

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<sup>23</sup> Broad, William and David Sanger. "Relying On Computer, U.S. Seeks to Prove Iran's Nuclear Aims." *New York Times*, November 13, 2005.

- *BM-25.* On April 27, 2006, Israel's military intelligence chief said that Iran had received a shipment of North Korean-supplied BM-25 missiles. The missile has a 1,550 mile range and is said to be capable of carrying nuclear warheads. The *Washington Times* appeared to corroborate this reporting in a July 6, 2006, story, which asserted that the North Korean-supplied missile is based on a Soviet-era "SS-N-6" missile.
- *ICBM.* Iran's asserted progress on missiles would appear to reinforce the concerns of the U.S. intelligence community. In February 2005, DIA Director Jacoby testified that Iran might be capable of developing an intercontinental ballistic missile (3,000 mile range) by 2015,<sup>24</sup> but that it was not yet clear whether Iran has decided to field such a system.
- *Other Missiles.* On September 6, 2002, Iran said it successfully tested a 200 mile range "Fateh 110" missile (solid propellant), and Iran said in late September 2002 that it had begun production of the missile.<sup>25</sup> Iran also possesses a few hundred short-range ballistic missiles, including the *Shahab-1* (Scud-b), the *Shahab-2* (Scud-C), and the *Tondar-69* (CSS-8).

## Foreign Policy and Support for Terrorist Groups

Iran's foreign policy is a product of the ideology of Iran's Islamic revolution, blended with long-standing national interests. The State Department report on international terrorism for 2006, released April 30, 2007, again stated (as it has for more than a decade) that Iran "remained the most active state sponsor of terrorism" in 2005, and it again attributed the terrorist activity to the Revolutionary Guard [presumably the Qods Force] and the Intelligence Ministry (Ministry of Information and Security, MOIS).<sup>26</sup>

**Relations With The Persian Gulf States.**<sup>27</sup> During the 1980s and early 1990s, Iran, through the Qods Force and the MOIS, sponsored Shiite Muslim extremist groups opposed to the Sunni Muslim-led monarchy states of the 6-member Gulf Cooperation Council (GCC; Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the United Arab Emirates). However, Iran's efforts to "export" its Islamic revolution were unsuccessful and caused the Gulf states to ally closely with the

<sup>24</sup> "Greater U.S. Concern About Iran Missile Capability." Reuters, March 11, 2002.

<sup>25</sup> "Iran: New Missile on the Assembly Line." *New York Times*, September 26, 2002.

<sup>26</sup> U.S. Department of State. *Country Reports on Terrorism 2005*. Released April 2006. [<http://www.state.gov/documents/organization/65462.pdf>].

<sup>27</sup> See CRS Report RL31533, *The Persian Gulf States: Issues for U.S. Policy, 2006*, by Kenneth Katzman.

United States. During Khatemi's presidency, Iran reduced support for Gulf Shiite dissident movements there. In part to counter Iran's perceived growing influence in the Gulf, in December 2006 the summit of the GCC leaders announced that the GCC states might jointly study their own development of "peaceful nuclear technology."

- *Saudi Arabia.* Many observers closely watch the relationship between Iran and Saudi Arabia, particularly in recent years, when Saudi Arabia has become alarmed at the emergence of a pro-Iranian government in Iraq and at Iran's ascendancy in Lebanon and among Shiite movements in the region. Saudi Arabia sees itself as leader of the Sunni Muslim world and views Shiite Muslims as heretical and threatening internally. Currently, Saudi leaders are highly concerned about Iran's nuclear program and the potential for Iranian reaction against the Kingdom should the United States take military action to stop Iran's program. Still, they are receptive to easing tensions with Iran, particularly over Lebanon, and they hosted Ahmadinejad in the Kingdom in early March 2007. Saudi officials do not want a repeat of the 1980s and 1990s, when Iran sponsored disruptive demonstrations at annual Hajj pilgrimages in Mecca, some of which were violent, and it funded Saudi Shiite dissident movements. The Saudis also blame a pro-Iranian movement in the Kingdom, Saudi Hezbollah, for the June 25, 1996, Khobar Towers housing complex bombing, which killed 19 U.S. airmen.<sup>28</sup> After restoring relations in December 1991 (after a four-year break), Saudi-Iran ties progressed to high-level contacts during Khatemi's presidency, including Khatemi visits there in 1999 and 2002.
- United Arab Emirates (UAE) concerns about Iran's intentions never completely recovered from the April 1992 Iranian expulsion of UAE security forces from the Persian Gulf island of Abu Musa, which it and the UAE shared under a 1971 bilateral agreement. (In 1971, Iran, then ruled by the U.S.-backed Shah, seized two other islands, Greater and Lesser Tunb, from the emirate of Ras al-Khaymah, as well as part of Abu Musa from the emirate of Sharjah.) The UAE (particularly the federation capital, Abu Dhabi, which takes a harder line than Dubai, which has a large Persian-speaking community and business ties to Iran) has sought to refer the dispute to the International Court of Justice (ICJ), but Iran insists on resolving the issue bilaterally. The UAE has not pressed the issue vigorously in recent years, although it insists the islands dispute be kept on the agenda of the U.N. Security Council (which it has been since December 1971). The United States, which is concerned

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<sup>28</sup> Walsh, Elsa. "Annals of Politics: Louis Freeh's Last Case." *The New Yorker*, May 14, 2001. The June 21, 2001, federal grand jury indictments of 14 suspects (13 Saudis and a Lebanese citizen) in the Khobar bombing indicate that Iranian agents may have been involved, but no indictments of any Iranians were announced. In June 2002, Saudi Arabia reportedly sentenced some of the eleven Saudi suspects held there. The 9/11 Commission final report asserts that Al Qaeda might have had some as yet undetermined involvement in the Khobar Towers attacks.

about Iran's military control over the islands, supports UAE proposals but takes no formal position on sovereignty. As an indicator of the degree to which the issue is fading, the UAE received Ahmadinejad in May 2007, the highest level Iranian visit to UAE since the 1979 revolution in Iran; during the visit, Ahmadinejad led an anti-U.S. rally of a reported several hundred Iranian-origin residents of Dubai at a soccer stadium there.

- Qatar is wary that Iran might seek to encroach on its large North Field (natural gas), which it shares with Iran (called South Pars on Iran's side) and through which Qatar earns large revenues for natural gas exports. Qatar's fears were heightened on April 26, 2004, when Iran's deputy Oil Minister said that Qatar is probably producing more gas than "her right share" from the field and that Iran "will not allow" its wealth to be used by others.
- In 1981 and again in 1996, Bahrain officially and publicly accused Iran of supporting Bahraini Shiite dissidents (the Islamic Front for the Liberation of Bahrain, Bahrain-Hezbollah, and other Bahraini dissident groups) in efforts to overthrow the ruling Al Khalifa family. Bahrain is about 60% Shiite, but its government is dominated by the Sunni Muslim Al Khalifa family. Some Bahraini leaders feared Iran might try to interfere in Bahrain's November 25, 2006, parliamentary election campaign by providing money and other support to Shiite candidates, but this did not appear to be an issue in the elections or their aftermath, even though the main Shiite opposition coalition won almost half of the 40 seats up for the vote.

**Iranian Policy in Iraq.** The U.S. military ousting of Saddam Hussein appears to have benefitted Iran strategically,<sup>29</sup> but U.S.-Iran differences in Iraq have widened since the fall of Saddam. The main thrust of Iran's strategy in post-Saddam Iraq has been to persuade all Shiite Islamist factions in Iraq to work together to ensure political and electoral Shiite dominance of post-Saddam Iraq. Iran has signed a number of agreements with Iraq on transportation, energy cooperation, free flow of Shiite pilgrims, border security, intelligence sharing, and other cooperation. However, U.S. officials assert that, as part of its effort to build influence in Iraq, Iran is providing arms (including highly lethal "explosively forced projectiles," EFPs, that have killed about 170 U.S. soldiers in Iraq) and financing to Shiite militias. The militias are fielded primarily by the Mahdi Army militia of Moqtada Al Sadr, a militia believed involved in sectarian violence. A February 11, 2007, U.S. briefing in Baghdad provided evidence that the EFP's were supplied by Iran. On April 11, 2007, U.S. military officials in Baghdad said that some Iranian-origin weapons had been found in the hands of Sunni insurgents as well, although the military did not offer an explanation on why Iran would want to arm opponents of its proteges in Iraq.

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<sup>29</sup> This issue is covered in greater depth in CRS Report RS22323, *Iran's Influence in Iraq*, by Kenneth Katzman.

In an effort to limit opportunities for Iran to act against U.S. interests in Iraq, the Bush Administration has begun a direct bilateral dialogue with Iran on the Iraq issue. Such talks were on hold since March 2006, when both sides publicly accepted talks on Iraq, but no talks were held, in part because the United States believed Iran was planning to try to expand such talks to include U.S.-Iran bilateral issues. The issue of U.S.-Iran talks on Iraq was revived in the context of recommendations by the “Iraq Study Group” (Recommendations 9, 10, and 11) that the United States open talks with both Iran and Syria to help stabilize Iraq. President Bush’s January 10, 2007, speech on Iraq policy stated instead that the United States “... will interrupt the flow of support [to armed groups] from Iran and Syria.” As part of that stance, U.S. forces in Iraq arrested a total of seven Iranian Qods Force members involved in weapons transfers to Iraqi factions in December 2006 and January 2007 (two were arrested in a SCIRI compound and five in an Iranian liaison facility in Kurdish-controlled Irbil). The Iraqi government insisted on, and obtained, the release by U.S. forces of the first two arrested; the case of the other five is still pending and is to be reviewed by the United States in July 2007. The President also announced additional military deployments directed mostly at Iran, as discussed later under “containment options.”

The Administration might have judged that the military moves strengthened the U.S. position, and the Administration agreed to support a March 10, 2007, regional conference in Iraq attended by Iran and Syria. Both Iranian and U.S. officials called the conference constructive, but both denied that substantive bilateral talks took place at the margins of the conference. Further regional talks on Iraq were held in Egypt during May 3-4, 2007, but Secretary of State Rice did not hold substantive bilateral discussions with her counterpart, Iranian Foreign Minister Manuchehr Mottaki, at that conference. However, U.S. Ambassador to the United States Ryan Crocker reportedly held talks with the Iranian deputy foreign minister at the meeting. Subsequently, on May 28, the two sides met in Baghdad at the home of Prime Minister Nuri al-Maliki, who opened the meeting. According to Ambassador Crocker (the Iranian side was represented by Hassan Kazemi-Qomi, the Iranian Ambassador to Iraq), the two sides agreed on broad principles for Iraq’s political evolution and stability, but the United States would judge the dialogue by Iranian cooperation “on the ground” by stopping military supply of Shiite militias. See CRS Report RS22323, *Iran’s Influence in Iraq*, by Kenneth Katzman.

**Supporting Palestinian Militant Groups.** Iran’s support for Palestinian militant groups has long concerned U.S. Administrations, particularly since doing so gives Tehran an opportunity to try to obstruct Israeli-Palestinian peace prospects. Ahmadinejad’s various statements on Israel were discussed above, although other Iranian leaders have made similar statements in the past. In the 1990s, Khamene’i called Israel a “cancerous tumor” and made other statements suggesting that he seeks Israel’s destruction. In December 2001, Rafsanjani said that it would take only one Iranian nuclear bomb to destroy Israel, whereas a similar strike against Iran by Israel would have far less impact because Iran’s population is large. Iran has sometimes openly incited anti-Israel violence, including hosting conferences of anti-peace process organizations (April 24, 2001, and June 2-3, 2002). During his presidency, Khatami generally refrained from inflammatory statements against Israel, and he conversed with Israel’s president at the 2005 funeral of Pope John Paul II. The Iranian Foreign Ministry, considered a bastion of moderates, has repeatedly

stated that Iran's official position is that it would not seek to block any final Israeli-Palestinian settlement but that the peace process is too weighted toward Israel to result in a fair settlement for Palestinians.

The State Department reports on terrorism for 2006 (mentioned above) again accuses Iran of providing "extensive" funding, weapons, and training to Hamas, Palestinian Islamic Jihad (PIJ), the Al Aqsa Martyr's Brigades, and the Popular Front for the Liberation of Palestine-General Command (PFLP-GC). All are named as foreign terrorist organizations (FTO) by the State Department for their use of violence to undermine the Arab-Israeli peace process. Of these groups, PIJ is closest politically to Iran.

Some saw Iran's policy further strengthened by Hamas' victory in the January 25, 2006, Palestinian legislative elections. The victory, and the Saudi-brokered Hamas-Fatah "unity government," positions Hamas to block any moves toward peace, and Hamas continues to oppose a two-state solution with Israel. However, Hamas activists say they are not politically close to Iran because Iran is mostly Shiite, while Hamas members are Sunni Muslims.<sup>30</sup> In one manifestation of that identity, Hamas protested the execution of Saddam Hussein in December 2006, in part blaming pro-Iranian Shiite factions that dominate Iraq for "victors' justice." Hamas was reputed to receive about 10% of its budget in the early 1990s from Iran, although since then Hamas has cultivated funding from wealthy Persian Gulf donors and supporters in Europe and elsewhere. Others believe that Hamas now has a stake in running the Palestinian Authority and is less amenable to advice or influence from Iran if such advice conflicts with Palestinian interests. On April 16, 2006, at a conference in Tehran of Palestinian militant leaders, Iran pledged \$50 million to the Hamas-led government to help it weather aid reductions from the United States and Europe. In December 2006, Iran reportedly pledged an additional \$250 million for 2007. Some pro-U.S. Arab states (Qatar, Saudi Arabia, UAE, and Kuwait) have pledged comparable amounts since Hamas took over governance.

**Lebanese Hezbollah.** Iran has maintained a close relationship with Hezbollah since the group was formed in 1982 by Lebanese Shiite clerics who were sympathetic to Iran's Islamic revolution and belonged to the Lebanese Da'wa Party. Hezbollah was responsible for several acts of anti-U.S. and anti-Israel terrorism in the 1980s and 1990s.<sup>31</sup> Hezbollah's attacks on Israeli forces in southern Lebanon contributed to an Israeli withdrawal in May 2000, but, despite United Nations

<sup>30</sup> CNN "Late Edition" interview with Hamas co-founder Mahmoud Zahar, January 29, 2006.

<sup>31</sup> Hezbollah is believed responsible for the October 1983 bombing of the U.S. Marine barracks in Beirut, as well as attacks on U.S. Embassy Beirut facilities in April 1983 and September 1984, and for the hijacking of TWA Flight 847 in June 1985 in which Navy diver Robert Stetham was killed. Hezbollah is also believed to have committed the March 17, 1992, bombing of Israel's embassy in that city, which killed 29 people. Its last known terrorist attack outside Lebanon was the July 18, 1994, bombing of a Jewish community center in Buenos Aires, which killed 85. On October 31, 2006, Argentine prosecutors asked a federal judge to seek the arrest of Rafsanjani, former Intelligence Minister Ali Fallahian, former Foreign Minister Ali Akbar Velayati, and four other Iranian officials for this attack.

certification of Israel's withdrawal, Hezbollah maintained military forces along the border. Hezbollah continued to remain armed and outside Lebanese government control, despite U.N. Security Council Resolution 1559 (September 2, 2004) that required its dismantlement. In refusing to disarm, Hezbollah says it was resisting Israeli occupation of small tracts of Lebanese territory (Shib'a Farms).

Neither Israel nor the United States opposed Hezbollah's progressively increased participation in peaceful Lebanese politics. In March 2005, President Bush indicated that the United States might accept Hezbollah as a legitimate political force in Lebanon if it disarms. In the Lebanese parliamentary elections of May - June 2005, Hezbollah expanded its presence in the parliament to 14 out of the 128-seat body. On the strength of this showing, two Hezbollah members were given cabinet seats. As a matter of policy, the United States does not meet with any Hezbollah members, even those in the parliament or cabinet. Hezbollah is a designated FTO, but that designation bars financial transactions by the group and does not specifically ban meeting with members of the group.

Whether or not Iran instigated Lebanese Hezbollah to provoke the July-August 2006 crisis, Iran has long been its major arms supplier. Hezbollah fired Iranian-supplied rockets on Israel's northern towns during the fighting. As part of a package of aid to Hezbollah said to exceed \$100 million per year, reported Iranian shipments to Hezbollah over the past five years have included the "Fajr" (dawn) and Khaybar series of rockets that were fired at the Israeli city of Haifa (30 miles from the border), and over 10,000 Katyusha rockets that were fired at cities within 20 miles of the Lebanese border.<sup>32</sup> Iran also supplied Hezbollah with an unmanned aerial vehicle (UAV), the *Mirsad*, that Hezbollah briefly flew over the Israel-Lebanon border on November 7, 2004, and April 11, 2005; at least three were shot down by Israel during the conflict. On July 14, 2006, Hezbollah apparently hit an Israeli warship with a C-802 sea-skimming missile probably provided by Iran. (See above for information on Iran's acquisition of that weapon from China.) Iran also purportedly provided advice during the conflict; about 50 Revolutionary Guards were in Lebanon (down from about 2,000 when Hezbollah was formed), according to a *Washington Post* report of April 13, 2005) when the conflict began; that number might have increased during the conflict to help Hezbollah operate the Iranian-supplied weaponry.

Iran has moved to support Hezbollah after the conflict as the movement increasingly (but thus far peacefully) challenges the pro-U.S., pro-Saudi government in Beirut. Hezbollah is demanding at least nine cabinet seats to be positioned to veto government decisions; in November and December 2006, Hezbollah and its allies (six total ministers) resigned from the cabinet and began anti-government demonstrations in an effort to topple it. To bolster its protege's challenge, one press report said Iran made \$150 million available for Hezbollah to distribute to Lebanese citizens (mostly Shiite supporters of Hezbollah) whose homes were damaged in the Israeli military campaign.<sup>33</sup> A State Department counter-terrorism official testified before the House International Relations Committee on September 28, 2006, that

<sup>32</sup> "Israel's Peres Says Iran Arming Hizbollah." Reuters, February 4, 2002.

<sup>33</sup> Shadid, Anthony. "Armed With Iran's Millions, Fighters Turn to Rebuilding." *Washington Post*, August 16, 2006.

Iranian military support to Hezbollah continued after the August 14 ceasefire, which took place in accordance with U.N. Security Council Resolution 1701 (July 31, 2006).<sup>34</sup>

Prior to the conflict, in the 109<sup>th</sup> Congress, two resolutions (H.Res. 101 and S.Res. 82) passed their respective chambers. They urged the EU to classify Hezbollah as a terrorist organization; S.Res. 82 called on Hezbollah to disband its militia as called for in U.N. Security Council Resolution 1559 (September 2, 2004).

**Central Asia and the Caspian.** Iran's policy in Central Asia has thus far emphasized Iran's rights to Caspian Sea resources, particularly against Azerbaijan. That country's population, like Iran's, is mostly Shiite Muslim, but its leadership is secular. In addition, Azerbaijan is ethnically Turkic, and Iran fears that Azerbaijan nationalists might stoke separatism among Iran's large Azeri Turkic population, which demonstrated some unrest in 2006. In July 2001, Iranian warships and combat aircraft threatened a British Petroleum (BP) ship on contract to Azerbaijan out of an area of the Caspian that Iran considers its own. The United States called that action provocative, and it is engaged in border security and defense cooperation with Azerbaijan directed against Iran (and Russia). The United States successfully backed construction of the Baku-Tblisi-Ceyhan oil pipeline, intended in part to provide alternatives to Iranian oil. Along with India and Pakistan, Iran has been given observer status at the Central Asian security grouping called the Shanghai Cooperation Organization (SCO), which contains Russia, China, Kazakhstan, Kyrgyzstan, Uzbekistan, and Tajikistan.

**Afghanistan.**<sup>35</sup> Since the fall of the Taliban, Iran, through aid and reconstruction projects with Afghanistan that total at least \$200 million since 2001 (out of a pledged \$500 million), is trying to restore some of its Iran's traditional sway in eastern, central, and northern Afghanistan where Persian-speaking Afghans predominate. It aided Northern Alliance figures that were prominent in the post-Taliban governing coalition, although, since 2004, Iran's influence has waned somewhat as its allies, mostly Persian-speaking Afghan minority factions still referred to as the "Northern Alliance," have been marginalized in Afghan politics. However, Iranian-funded Shiite theological seminaries are being built in Kabul and elsewhere, perhaps an indication of Iran's continuing efforts to support Afghanistan's Shiite minority. Iran is said to fear the continuing presence of the about 27,000 U.S. troops in Afghanistan, and Iran has objected to the U.S. use of Shindand air base in western Afghanistan, asserting that it is being used to conduct surveillance on Iran. U.S. aircraft began using the base in September 2004 after the downfall of the pro-Iranian governor of Herat Province, Ismail Khan.

On April 17, 2007, U.S. military personnel in Afghanistan captured a shipment of Iranian weapons that purportedly was bound for Taliban fighters. Because such a shipment would appear to conflict with Iran's policy in Afghanistan, Secretary of

<sup>34</sup> See CRS Report RL33566, *Lebanon: The Israel-Hamas-Hezbollah Conflict*, coordinated by Jeremy Sharp.

<sup>35</sup> See CRS Report RL30588, *Afghanistan: Post-War Governance, Security, and U.S. Policy*, by Kenneth Katzman.

Defense Gates, in a statement on the matter on June 4, 2007, said it was unclear whether or not the shipments resulted from a deliberate Iranian government decision to arm the Taliban. Such shipments reportedly are continuing, leading some observers to speculate that Iran's policy might be shifting to a broader effort to weaken or humble the U.S. military both in Iraq and in Afghanistan. Iran long opposed the regime of the Taliban in Afghanistan on the grounds that it oppressed Shiite Muslim and other Persian-speaking minorities. Iran nearly launched a military attack against the Taliban in September 1998 after Taliban fighters captured and killed nine Iranian diplomats based in northern Afghanistan, and Iran provided military aid to the Northern Alliance factions. Iran, along with the United States, Russia, and the countries bordering Afghanistan, attended U.N.-sponsored meetings in New York (the Six Plus Two group) to try to end the conflict in Afghanistan. During the major combat phase of the post-September 11 U.S.-led war in Afghanistan, Iran offered search and rescue of any downed service-persons and the trans-shipment to Afghanistan of humanitarian assistance. In March 2002, Iran expelled Gulbuddin Hikmatyar, a pro-Taliban Afghan faction leader. Iran froze Hikmatyar's assets in Iran (January 2005).

**Al Qaeda.** Iran is not a natural ally of Al Qaeda, largely because Al Qaeda is an orthodox Sunni Muslim organization. However, U.S. officials have said since January 2002 that Iran has not brought to justice senior Al Qaeda operatives (spokesman Sulayman Abu Ghaith, top operative Sayf Al Adl, and Osama bin Laden's son, Saad<sup>36</sup>) who are believed to be in Iran,<sup>37</sup> meaning they might be at relative liberty within Iran. U.S. officials blamed these figures for the May 12, 2003, bombings in Riyadh, Saudi Arabia against four expatriate housing complexes on these operatives, saying they have been able to contact associates outside Iran.<sup>38</sup> In testimony before the Senate Foreign Relations Committee on March 29, 2007, Undersecretary of State Nicholas Burns accused Iran of violating U.N. Security Council Resolutions 1267 and 1373, which require sharing information on Al Qaeda, as part of the emerging broader U.S. strategy of pressuring Iran militarily, politically, and economically.

Iran asserted on July 23, 2003, that it had "in custody" senior Al Qaeda figures. However, if that is not their status, the explanation could be that hardliners in Iran might want to use Al Qaeda activists as leverage against the United States and its allies. Some say Iran might want to exchange them for a U.S. hand-over of People's Mojahedin activists under U.S. control in Iraq. Possibly attempting to show that it is an adversary and not an ally of Al Qaeda, on July 16, 2005, Iran's Intelligence Minister said that 200 Al Qaeda members are in Iranian jails and that Iran had broken up an Al Qaeda cell planning attacks on Iranian students.<sup>39</sup>

<sup>36</sup> Gertz, Bill. "Al Qaeda Terrorists Being Held by Iran." *Washington Times*, July 24, 2003.

<sup>37</sup> Keto, Alex. "White House Reiterates Iran Is Harboring Al Qaeda." *Dow Jones Newswires*, May 19, 2003.

<sup>38</sup> Gertz, Bill. "CIA Points to Continuing Iran Tie to Al Qaeda." *Washington Times*, July 23, 2004.

<sup>39</sup> "Tehran Pledges to Crack Down on Militants." Associated Press, July 18, 2005.

The 9/11 Commission report said several of the September 11 hijackers and other plotters, possibly with official help, might have transited Iran, but the report does not assert that the Iranian government cooperated with or knew about the plot. Another bin Laden ally, Abu Musab al-Zarqawi, killed by U.S. forces in Iraq on June 7, 2006, reportedly transited Iran after the September 11 attacks and took root in Iraq, becoming a major insurgent leader there.

## **U.S. Policy Responses, Options, and Legislation**

The February 11, 1979 fall of the Shah of Iran, a key U.S. ally, opened a long rift in U.S.-Iranian relations. On November 4, 1979, radical “students” seized the U.S. Embassy in Tehran and held its diplomats hostage until minutes after President Reagan’s inauguration on January 20, 1981. The United States broke relations with Iran on April 7, 1980 and the two countries have had only limited official contact since.<sup>40</sup> The United States tilted markedly toward Iraq in the 1980-1988 Iran-Iraq war, including U.S. diplomatic attempts to block conventional arms sales to Iran, providing battlefield intelligence to Iraq<sup>41</sup> and, during 1987-1988, direct skirmishes with Iranian naval elements in the course of U.S. efforts to protect international oil shipments in the Gulf from Iranian attacks. In one battle on April 18, 1988, Iran lost about a quarter of its larger naval ships in a one-day engagement with the U.S. Navy, including one frigate sunk and another badly damaged. Iran strongly disputed the U.S. assertion that the July 3, 1988, U.S. shoot-down of Iran Air Flight 655 by the U.S.S. *Vincennes* over the Persian Gulf (bound for Dubai, UAE) was an accident.

In his January 1989 inaugural speech, President George H.W. Bush laid the groundwork for a rapprochement, saying that, in relations with Iran, “goodwill begets goodwill,” implying better relations if Iran helped obtain the release of U.S. hostages held by Hezbollah in Lebanon. Iran reportedly did assist in obtaining their releases, which was completed in December 1991, but no thaw followed, possibly because Iran continued to back groups opposed to the U.S.-sponsored Middle East peace process, a major U.S. priority.

Upon taking office in 1993, the Clinton Administration moved to further isolate Iran as part of a strategy of “dual containment” of Iran and Iraq. In 1995 and 1996, the Clinton Administration and Congress added sanctions on Iran in response to growing concerns about Iran’s weapons of mass destruction, its support for terrorist groups, and its efforts to subvert the Arab-Israeli peace process. The election of Khatemi in May 1997 precipitated a U.S. shift toward engagement; the Clinton Administration offered Iran official dialogue, with no substantive preconditions. In January 1998, Khatemi publicly agreed to “people-to-people” U.S.-Iran exchanges as part of his push for “dialogue of civilizations, but he ruled out direct talks. In a June 1998 speech, then Secretary of State Albright stepped up the U.S. outreach

<sup>40</sup> An exception was the abortive 1985-1986 clandestine arms supply relationship with Iran in exchange for some American hostages held by Hezbollah in Lebanon (the so-called “Iran-Contra Affair”).

<sup>41</sup> Sciolino, Elaine. *The Outlaw State: Saddam Hussein’s Quest for Power and the Gulf Crisis*. New York: John Wiley and Sons, 1991. p. 168.

effort by calling for mutual confidence building measures that could lead to a “road map” for normalization of relations. Encouraged by the reformist victory in Iran’s March 2000 parliamentary elections, Secretary Albright, in a March 17, 2000, speech, acknowledged past U.S. meddling in Iran, announcing some minor easing of the U.S. trade ban with Iran, and promised to try to resolve outstanding claims disputes. In September 2000 U.N. “Millennium Summit” meetings, Albright and President Clinton sent a positive signal to Iran by attending Khatemi’s speeches.

The Bush Administration continued the thrust of Clinton Administration efforts to try to limit Iran’s strategic capabilities through international diplomacy and sanctions, while welcoming selected bilateral diplomacy with Iran on specific priority issues, such as stabilizing Afghanistan and Iraq. Some Bush Administration officials have sought to place regime change at the center of U.S. Iran policy. In early 2007, the Administration approach shifted somewhat toward strategic and military containment, but the concept of selected bilateral diplomacy subsequently received priority in the case of Iraq stabilization. The FY2007 defense authorization law (P.L. 109-364) calls for a report by the Administration on all aspects of U.S. policy and objectives on Iran (and requires the DNI to prepare a national intelligence estimate on Iran).

## **Containment and Possible Military Action**

The Administration appears to believe that Iran’s strategic position can be contained by U.S. conventional capabilities and regional and international alliances. Some in the Administration are said to believe that pressuring Iran on multiple fronts could even cause cracks within Iran’s regime that could precipitate severe unrest or even collapse. The military elements are discussed in this section, and additional components of the policy, such as international and U.S. or U.S.-inspired sanctions, are discussed in the sections below.

An assertive military containment option was signaled in the January 10, 2007, statement by President Bush on Iraq. He confirmed in that speech that the United States was sending a second U.S. aircraft carrier group into the Gulf,<sup>42</sup> and he announced the extended deployment of Patriot anti-missile batteries in the Gulf, reportedly in Kuwait and Qatar, as well as increased intelligence sharing with the Gulf states. Other reports say that U.S. aircraft have increased overflights of the Iran-Iraq border. The arrests of Iranian agents in Iraq were discussed in the section on Iraq, above. Secretary of Defense, Robert Gates, has said that he saw the U.S. buildup as a means of building leverage against Iran that could be useful in bolstering U.S. diplomacy, and he, CENTCOM Commander Admiral William Fallon, and other senior officials have repeatedly denied that the military moves are a prelude or part of planning for any U.S. military attack on Iran. They add that the thrust of U.S. policy toward Iran is multilateral diplomacy to compel Iran to change its behavior. Additional U.S. exercises were held in late March 2007, coincident with Iranian exercises, and large U.S. maneuvers off Iranian waters were held in late May 2007.

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<sup>42</sup> Shanker, Thom. “U.S. and Britain to Add Ships to Persian Gulf in Signal to Iran,” *New York Times*, December 21, 2006.

**“Gulf Security Dialogue.”** The U.S. Gulf deployments build on a containment strategy inaugurated in mid-2006 by the State Department, primarily the Bureau of Political-Military Affairs (“Pol-Mil”). The State Department effort represented an effort to revive some of the U.S.-Gulf state defense cooperation that had begun during the Clinton Administration but had since languished as the United States focused on the post-September 11 wars in Afghanistan and Iraq. In a November 27, 2006, press interview with defense publications, then Assistant Secretary of State for Political Military Affairs John Hillen discussed the “Gulf Security Initiative” (now referred to as the Gulf Security Dialogue) as, according to the publication:<sup>43</sup>

... not part of any big picture re-examination of the Middle East strategy that may be undertaken by the White House. The new Persian Gulf security architecture would take into account the overthrow of Saddam Hussein and the establishment of the new Iraqi government.... Further, the plan would recognize that dynamics within states, as opposed to dynamics between states, are more likely to cause conflict in the region.... The new approach must take into account transnational, regional, and internal-state threats, as opposed to traditional conflicts between states.... We want our friends in the region to have more robust maritime security assets and capabilities. Maritime security is ... an enabler of those other areas [including missile defense and air defense].... The initiative is about boosting the capabilities of U.S. allies, rather than the presence of U.S. forces.... Missile defense is important because in this region threats are more likely to take the form of missiles, perhaps launched by terrorists, as opposed to big battles involving lots of tanks, aircraft, and flotillas of ships.

The emphasis of the initiative is on boosting Gulf state capabilities fueled speculation about major new weapons sales to the GCC states. In October 2006, the Defense Department official responsible for managing official sales to foreign states, director of the Defense Security Cooperation Agency Lt. Gen. Jeffrey Kohler, confirmed that speculation by saying that the Gulf initiative would likely drive up weapons sales to the Gulf countries in 2007. According to Kohler, improving their missile defense capabilities, for example by sales of the upgraded Patriot Advanced Capability-3 (PAC-3) is “high on the agenda.”<sup>44</sup> Among other potential weapons sales Kohler discussed were border and maritime security equipment, including radar systems and communications gear. Other reports say that planned weapons sales to Saudi Arabia under the initiative include U.S.-made Littoral Combat Ships equipped with Aegis radar and precision-guided air force munitions, the latter of which has reportedly incurred opposition from Israel as a potential threat.

**Pre-Emptive Military Action.** As concerns over Iran’s nuclear program have grown, many fear that containment might not succeed and that Iran’s nuclear program should be stopped before Iran possesses a working nuclear device. In discussing possible military options against Iran’s nuclear facilities, President Bush

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<sup>43</sup> “State Department Promotes New Persian Gulf Security Architecture.” *Inside the Navy*, November 27, 2006.

<sup>44</sup> “New Persian Gulf Security Effort Expected to Fuel Arms Sales in FY-07.” *Inside the Pentagon*, November 9, 2006.

has repeatedly maintained that “all options are on the table.”<sup>45</sup> A U.S. ground invasion to remove Iran’s regime does not appear to be under serious consideration; most experts believe U.S. forces are spread too thin to undertake such action, including about 160,000 deployed in Iraq, and that U.S. forces would be greeted with hostility.

Some experts believe that limited military action, such as air or missile strikes against suspected nuclear sites should be considered. Proponents of the option argue that military action could set back Iran’s nuclear program because there are only a limited number of key targets, and these targets are known to U.S. planners and could be struck, even those that are hardened or buried.<sup>46</sup> It could also be argued that the United States could reduce Iran’s potential for military or unconventional retaliation by striking not only nuclear facilities but also Iran’s conventional military infrastructure, particularly its small ships and coastal missiles.

U.S. allies in Europe, not to mention Russia, China, and some U.S. experts, have expressed strong opposition to any military action. Opponents of a strike believe any benefits would be minor, or only temporary, and that the costs of a strike are too high. Some question whether the United States is aware of or militarily able to reach all relevant sites; one former Air Force planner estimates that up to 400 targets would need to be struck, including at least 75 that would require penetrating munitions. Others argue that Iran might retaliate through terrorism or other means, such as shutting down its own oil exports, while others say such action would cause Iran to withdraw from the NPT and refuse any IAEA inspections. Some believe that a U.S. strike would cause the Iranian public to rally around Iran’s regime, setting back U.S. efforts to promote change within Iran.

Expressing particular fear that Iran might achieve a nuclear weapons capability, Israeli officials have repeatedly refused to rule out the possibility that Israel might strike Iran’s nuclear infrastructure. However, several experts doubt that Israel has the capabilities, such as sufficient aerial refueling capacity, that could make such action effective. Most experts believe that Israel’s strategy is to persuade the United States to undertake such a strike, and Israeli leaders sought to engage visiting Secretary of Defense Gates in such a discussion in April 2007, although he reportedly declined to discuss with the Israelis any strike planning during the visit.

**Unconventional Conflict Scenarios.** Some officials and experts warn that a U.S. military strike on Iran could provoke unconventional retaliation, using the equipment discussed in the section on “conventional military capabilities,” that could be difficult to counter. Iran has acquired a structure and doctrine for unconventional warfare that partly compensates for its conventional weakness. Former CENTCOM commander Gen. John Abizaid said in March 2006 that the Revolutionary Guard Navy, through its basing and force structure, is designed to give Iran a capability to “internationalize” a crisis in the Strait of Hormuz. In his

<sup>45</sup> Fletcher, Michael and Keith Richburg. “Bush Tries to Allay E.U. Worry Over Iran.” *Washington Post*, February 23, 2005.

<sup>46</sup> For an extended discussion of U.S. air strike options on Iran, see Rogers, Paul. *Iran: Consequences Of a War*. Oxford Research Group, February 2006.

confirmation hearings on January 30, 2007, Abizaid's replacement, Admiral William Fallon, said that "Based on my read of their military hardware acquisitions and development of tactics ... [the Iranians] are posturing themselves with the capability to attempt to deny us the ability to operate in [the Strait of Hormuz]." During a visit to the Gulf, Vice President Cheney warned Iran on May 11, 2007, not to try to restrict sea traffic, saying "[The United States] will keep the sea lanes open."

Although many experts believe that U.S. forces could quickly reopen the Strait if Iran closed it, Iran has tried to demonstrate that it is a capable force in the Gulf. It has conducted at least five major military exercises since August 2006, including exercises simultaneous with U.S. exercises in the Gulf in March 2007; there were no reported incidents. CNN reported on February 21, 2007, that Iranian ships have been widening their patrols, coming ever closer to key Iraqi oil platforms in the Gulf. Several weeks after that report, Iran seized 15 British sailors that Iran said were patrolling in Iran's waters, although Britain says they were in Iraqi waters performing coalition-related searches. The 15 were held until April 5, 2007.

If there were a conflict in the Gulf, some fear that Iran might try to use suicide boat attacks or to lay mines in the Strait. In April 2006, Iran conducted naval maneuvers, including test firings of what Iran claims are underwater torpedos that can avoid detection, presumably for use against U.S. ships in the Gulf, and a surface-to-sea radar-evading missile launched from helicopters or combat aircraft. U.S. military officials said the claims might be an exaggeration.

**Presidential Authorities and Legislation.** A decision to take military action might raise the question of presidential authorities and congressional consultation, and some in Congress have begun to express concern that the Administration might be preparing for military action against Iran, despite Administration denials to that effect. In the 109<sup>th</sup> Congress, H.Con.Res. 391, introduced by Representative Peter DeFazio on April 26, 2006, called on the President to not initiate military action against Iran without first obtaining authorization from Congress. He has introduced a similar bill, H.Con.Res. 33, in the 110<sup>th</sup> Congress. Other bills requiring specific congressional authorization for use of force against Iran (or prohibiting U.S. funds for that purpose) include H.J.Res. 14, S.Con.Res. 13, S. 759, and H.R. 770. A provision that sought to bar the Administration from taking military action against Iran without congressional authorization was taken out of an early draft of an FY2007 supplemental appropriation (H.R. 1591) to fund additional costs for Iraq and Afghanistan combat (which was vetoed on May 1, 2007).

## Regime Change

A major feature of policy in early-mid 2006, the "regime change" aspect of policy has appeared to since recede. Still, several high-ranking U.S. officials, purportedly including Vice President Cheney, believe that only an outright change of regime would permanently reduce the threat posed by Iran. There has been some support in the United States for regime change since the 1979 Islamic revolution; the United States provided some funding to anti-regime groups, mainly pro-monarchs,

during the 1980s.<sup>47</sup> The Administration's attraction to this option became apparent after the September 11, 2001, attacks, when President Bush's described Iran as part of an "axis of evil" in his January 2002 State of the Union message. President Bush's second inaugural address (January 20, 2005) and his State of the Union messages of February 2, 2005, and January 31, 2006, suggested a clear preference for a change of regime by stating, in the latter speech, that "...our nation hopes one day to be the closest of friends with a free and democratic Iran."

Indications of affinity for this option include increased public criticism of the regime's human rights record — for example supporting General Assembly resolutions condemning Iran's human rights record — as well as the funding of Iranian pro-democracy activists. In 2006, the Administration began increasing the presence of Persian-speaking U.S. diplomats in U.S. diplomatic missions around Iran, in part to help identify and facilitate Iranian participate in U.S. democracy-promotion programs. The Iran unit at the U.S. consulate in Dubai has been enlarged significantly, and new "Iran-watcher" positions have been added to U.S. diplomatic facilities in Baku, Azerbaijan; Istanbul, Turkey; Frankfurt, Germany; London; and Ashkabad, Turkmenistan, all of which have large expatriate Iranian populations and/or proximity to Iran.<sup>48</sup> An enlarged (six-person) "Office of Iran Affairs" has been formed at State Department, headed by Barbara Leaf, and it is reportedly engaging in contacts with U.S.-based exile groups such as those discussed earlier.<sup>49</sup>

**Congress and Regime Change.** The State Department has used funds provided in recent appropriations to support pro-democracy activists. The funds represent congressional sentiment for efforts to change Iran's regime. The policy is discussed in the State Department report "Supporting Human Rights and Democracy: U.S. Record 2005-2006," released April 6, 2006. Iran asserts that such steps represent a violation of the 1981 "Algiers Accords" that settled the Iran hostage crisis and provide for non-interference in each others' internal affairs. The following have been appropriated:

- The FY2004 foreign operations appropriation (P.L. 108-199) earmarked "notwithstanding any other provision of law" up to \$1.5 million for "making grants to educational, humanitarian and non-governmental organizations and individuals inside Iran to support the advancement of democracy and human rights in Iran." The State

<sup>47</sup> CRS conversations with U.S. officials responsible for Iran policy. 1980-1990. After a period of suspension of such assistance, in 1995, the Clinton Administration accepted a House-Senate conference agreement to include \$18-\$20 million in funding authority for covert operations against Iran in the FY1996 Intelligence Authorization Act (H.R. 1655, P.L. 104-93), according to a *Washington Post* report of December 22, 1995. The Clinton Administration reportedly focused the covert aid on changing the regime's behavior, rather than its overthrow.

<sup>48</sup> Stockman, Farah. "'Long Struggle' With Iran Seen Ahead." *Boston Globe*, March 9, 2006.

<sup>49</sup> Weisman, Steven. "U.S. Program Is Directed At Altering Iran's Politics." *New York Times*, April 15, 2006.

Department Bureau of Democracy and Labor (DRL)<sup>50</sup> gave \$1 million of those funds to the IHDC organization, mentioned earlier. The remaining \$500,000 was distributed through the National Endowment for Democracy (NED).

- The conference report on the FY2005 foreign aid appropriations (P.L. 108-447) provided a further \$3 million for these efforts. The State Department put out a solicitation for proposals for similar projects to be funded in 2005. The winning grantees were not announced by DRL to protect the identities of the grantees, according to U.S. diplomats. DRL had said that priority areas were political party development, media development, labor rights, civil society promotion, and promotion of respect for human rights.<sup>51</sup>
- The conference report (H.Rept. 109-265) on the regular FY2006 foreign aid appropriation (P.L. 109-102) appropriated up to \$10 million in democracy promotion funds for use in Iran. The funds were drawn from a “Democracy Fund” as well as from the Middle East Partnership Initiative (MEPI).
- On February 16, 2006, the Administration requested \$75 million for democracy promotion in Iran as part of a supplemental FY2006 appropriation. In congressional action, the FY2006 supplemental appropriation (H.R. 4939, P.L. 109-234) provided a total of \$66.1 million, broken down as follows: \$20 million for democracy programs (\$5 million more than requested); \$5 million for public diplomacy directed at the Iranian population (the amount requested); \$5 million for cultural exchanges (the amount requested); and \$36.1 million for Voice of America-TV and “Radio *Farda*” broadcasting (\$13.9 million less than requested). Of these and the regular FY2006 funds, the State Department said on June 4, 2007 that \$16.05 million was obligated for democracy promotion programs, as was \$1.77 million for public diplomacy and \$2.22 million for cultural exchanges (inviting about 200 young Iranian professionals and foreign language teachers to the United States).
- The broadcasting funds are to be provided through the Broadcasting Board of Governors, an apparent rebuff to the idea of funding Iranian exile broadcasts. Broadcasting to Iran began under Radio Free Europe/Radio Liberty (RFE/RL), in partnership with the VOA, in October 1998.<sup>52</sup> It was renamed Radio *Farda* (“Tomorrow” in Farsi) in December 2002, which will receive \$14.7 million of the

<sup>50</sup> The State Department has determined that, because Iran is ineligible for U.S. aid, Iran democracy promotion funds cannot be channeled through the Middle East Partnership Initiative, because those are Economic Support Funds, ESF, and cannot be used in Iran.

<sup>51</sup> Briefing by DRL representatives for congressional staff, May 9, 2005.

<sup>52</sup> The service began when Congress funded it at \$4 million in the FY1998 Commerce/State/Justice appropriation (P.L. 105-119). It was to be called Radio Free Iran but was never formally given that name by RFE/RL.

FY2006 broadcasting funds. Farda now broadcasts 24 hours per day, up from 8 previously. VOA Persian language services (radio and TV) also operate to Iran at a combined cost of about \$10 million per year. VOA-TV began on July 3, 2003, and now is broadcasting to Iran 12 hours a day, up from four hours previously.

- No funds for this purpose were requested for FY2007, and FY2007 foreign aid appropriations legislation contained no new funds for it. Another \$75 million in democracy promotion funds was requested by the Administration for FY2008, plus \$33.6 million for broadcasting activities (\$20 million for VOA Persian service; \$8.1 million for Radio Farda; and \$5.5 million for consular affairs related to exchanges with Iran).

Many question the prospects of U.S.-led Iran regime change through democracy promotion or other means, short of all-out-U.S. military invasion, because of the weakness of opposition groups. Perhaps in recognition of the difficulty of the option, a so-called “Iran-Syria Policy and Operations Group” within the Administration that was purportedly considering recommending covert aid to opposition groups<sup>53</sup> was formally disbanded in April 2007. Providing overt or covert support to anti-regime organizations, in the view of many experts, would not make them materially more viable or attractive to Iranians. The regime purportedly also conducts extensive regime surveillance of democracy activists or other internal dissidents. Press reports in April 2007 said that Iran has been arresting civil society activists by alleging they are accepting the U.S. democracy promotion funds, while others have refused to participate in U.S.-funded programs, fearing arrest. The highest profile such arrest came in May 2007, when Iranian-American scholar Haleh Esfandiari, of the Woodrow Wilson Center in Washington, D.C., who had been under house arrest and unable to leave Iran since late December 2006, was sent to Evin prison. Two other Iranian Americans were arrested and charged in May 2007 with efforts to subvert the regime - U.S. funded broadcast (Radio Farda) journalist Parnaz Azima, and Kian Tajbacksh of the Open Society Institute funded by George Soros. Others argue that reformist groups such as students, women, labor leaders, intellectuals, and others might be able to galvanize regime change unexpectedly despite the repression; all of these groups have conducted various small protests during the past few years. Several congressional resolutions call on Iran to immediately release Ms. Esfandiari (S.Res.214, agreed to by the Senate; H.Res 430; and S.Res. 199).

***Iran Freedom Support Act (P.L. 109-293).*** Legislation in the 109<sup>th</sup> Congress exemplified the preference of some Members for regime change in Iran by authorizing funding for democracy promotion, among other provisions. In the 109<sup>th</sup> Congress, H.R. 282, introduced by Representative Ros-Lehtinen, passed the House on April 26, 2006, by a vote of 397-21. A companion, S. 333, was introduced by Senator Santorum. The Administration supported the democracy-promotion sections of these bills, while opposing provisions on economic sanctions, as discussed below in the section on the Iran Sanctions Act. Major provisions of the bills were included

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<sup>53</sup> Stockman, Farah. “US Unit Works Quietly to Counter Iran’s Sway,” *Boston Globe*, January 2, 2007.

in H.R. 6198, which was introduced on September 27, 2006, passed by both chambers, and signed September 30, 2006 (P.L. 109-293). Entitled the Iran Freedom Support Act, it authorizes funds (no specific dollar amount) for Iran democracy promotion and modifies the Iran Sanctions Act.

## **Engagement**

To a degree greater than in previous Administrations, the Bush Administration has directly engaged Iran on specific issues (Afghanistan and Iraq), viewing such dialogue as helpful to the stabilization missions in those countries. The United States had a dialogue with Iran on Iraq and Afghanistan from late 2001 until May 2003, when the United States broke off the talks following the May 12, 2003, terrorist bombing in Riyadh. At that time, the United States and Iran publicly acknowledged that they were conducting direct talks in Geneva on those two issues,<sup>54</sup> the first confirmed direct dialogue between the two countries since the 1979 revolution. The United States briefly resumed some contacts with Iran in December 2003 to coordinate U.S. aid to victims of the December 2003 earthquake in Bam, Iran, including a reported offer to send a high-level delegation to Iran. However, Iran rebuffed that offer. Prior to the recent regional conferences on Iraq, discussed above, the United States and Iran did participate in regional meetings in 2004 on the issue of stabilizing Iraq, including a 2004 meeting in Egypt. The May 28, 2007 U.S.-Iran meeting in Baghdad was the most public and high profile meeting held between the two countries since the 1979 Islamic revolution.

Regarding a broader dialogue with Iran on nuclear and other issues, since 2006 the Administration has maintained it would join multilateral nuclear talks, but Iran must first suspend uranium enrichment. Some believe the Administration position was based on a view that participating in a nuclear dialogue would increase international support for sanctions and other pressure mechanisms. Others believe the Administration might perceive that a multilateral dialogue could convince Iran of the seriousness of the joint offer to Iran (discussed above) to resolve the nuclear issue. An amendment by Senator Biden (adopted June 2006) to the FY2007 defense authorization bill (P.L. 109-364) supported the Administration's offer to join nuclear talks with Iran. As part of the U.S. declared openness to talk with Iran if it complies on nuclear issues, the Administration indicated that it considers Iran a great nation and respects its history; such themes were prominent in speeches by President Bush at the Merchant Marine Academy on June 19, 2006, and his September 18, 2006, speech to the U.N. General Assembly.

U.S. officials have not, to date, clearly offered a direct U.S.-Iran bilateral dialogue on all outstanding issues of U.S. concern: nuclear issues, Iranian support of militant movements, involvement in Iraq, and related issues. President Bush again appeared to rule out the idea of a broad direct bilateral dialogue with Iran in an interview with PBS's Charlie Rose, broadcast April 24, 2007. U.S. officials rebuffed a reported overture from Iran just before the May 12, 2003, Riyadh bombing to negotiate all outstanding U.S.-Iran issues as part of a so-called "grand bargain" that has been discussed by outside experts and reported in various press articles. The

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<sup>54</sup> Wright, Robin. "U.S. In 'Useful' Talks With Iran." *Los Angeles Times*, May 13, 2003.

*Washington Post* reported on February 14, 2007 (“*2003 Memo Says Iranian Leaders Backed Talks*”), that the Swiss Ambassador to Iran in 2003, Tim Guldmann, had informed U.S. officials of a comprehensive Iranian proposal for talks with the United States. However, State Department officials question whether that proposal represented an authoritative communication from the Iranian government. President Bush did not respond to a direct letter by Ahmadinejad in May 2006, and there was no official U.S. response to a November 29, 2006, Ahmadinejad open letter to the American people.

## International and Multilateral Sanctions

With the deadline for Iranian compliance under Resolution 1747 now expired, an immediate question is whether, and if so what, further international sanctions might be imposed on Iran. The following represent sanctions that the Security Council might impose in the next and in any subsequent resolutions. Administration officials say these or other additional sanctions might also be considered by a “coalition” of countries, outside Security Council authorization.

- *Mandating Reductions in Diplomatic Exchanges with Iran or Prohibiting Travel by Iranian Officials.* Resolution 1747 requires U.N. members to report visits by Iranian officials or persons named in Resolution 1737 or 1747 (see **Table 4** at the end of this paper for those persons). According to some observers, banning travel by these named officials will be considered as part of a new resolution. Another option is to limit sports or cultural exchanges with Iran, such as Iran’s participation in the World Cup soccer tournament or the Olympics. However, many experts oppose using sporting events to accomplish political goals.
- *Banning International Flights to and from Iran.* This sanction was imposed on Libya in response to the finding that its agents were responsible for the December 21, 1988, bombing of Pan Am 103.
- *A Ban on Exports to Iran of Refined Oil Products or of Other Products.* Some countries that supply such goods and services to Iran might oppose this sanction. A gas exports ban would almost certainly hurt Iran’s economy because Iran does not refine enough gasoline to meet demand and must import gasoline at a cost of about \$5 billion per year, although some experts believe Iran would be able to circumvent this sanction by offering premium prices.
- *Financial Sanctions, Such as a Freeze on Iran’s Financial Assets Abroad or on the Assets of Designated Iranian Officials, or Limiting Lending to Iran by International Financial Institutions.* Resolution 1737 and 1747 freeze the assets only of specific Iranian entities and individuals named in those resolutions. Virtually all U.S. allies that conduct extensive trade with Iran, including Japan and most of the EU states, oppose comprehensive sanctions on trade in civilian goods with Iran. However, in response to U.S. urgings, U.S. allies and their banks are reducing export credit guarantees and financing

for Iran, as discussed below. Some EU officials say that a new resolution might, as was considered during discussions of Resolution 1747, mandate reduction of official credit guarantees. Another option advocated by some is to impose a ban on worldwide financing of energy projects in Iran as a means of cutting off energy development in Iran, although others believe that taking this step could cause worldwide energy prices to rise further.

- *Imposing a Worldwide Ban on Sales of Arms and Technology to Iran.* Resolution 1747 calls for — but does not require — U.N. member states to exercise restraint in selling arms to Iran. However, Russian and Chinese opposition to this sanction might be softening. A new resolution might also mandate, rather than suggest, a ban on all sales to Iran of dual use items. Another option under discussion is to eliminate the exemption from Resolution 1747 sanctions for the Bushehr nuclear reactor project, although Russian support for such a move is in doubt.
- *Imposing an Intrusive U.N.-led WMD Inspections Regime.* The objective of such an inspections program could be to enforce a Security Council decision to halt uranium enrichment, although Iran is likely to resist such a program and reduce its effectiveness.
- *Imposing an International Ban on Purchases of Iranian Oil or Other Trade/Ban on International Investment in Iran's Energy Sector.* These are widely considered the most sweeping of sanctions that might be imposed, and would likely be considered in the Security Council only if other sanctions are imposed but fail. However, the sanction is unlikely to be imposed because world oil prices remain nearly \$60 per barrel.

#### **European/Japanese Policy on Sanctions and Trade Agreements.**

Although the United States and its allies are now mostly aligned with the United States on Iran policy, some philosophical differences might complicate U.S. efforts to establish a strict international or multilateral sanctions regime on Iran, should Iran continue to defy the international community. Most U.S. allies still favor engagement and incentives — not just economic or political punishments — as an important tool to change Iran's behavior. During 1992-1997, when the United States was tightening its own sanctions against Iran, the European Union (EU) countries maintained a policy of “critical dialogue” with Iran, and the EU and Japan refused to join the 1995 U.S. trade and investment ban on Iran. The European dialogue with Iran was suspended in April 1997 in response to the German terrorism trial (“Mykonos trial”) that found high-level Iranian involvement in assassinating Iranian dissidents in Germany, but resumed in May 1998 after Khatemi became president.

As Iran has defied the international community on nuclear issues, the European countries and Japan are now linking Iranian nuclear compliance to trade agreements and other economic interaction. In December 2002, as part of its engagement strategy, the EU (European Commission) first began negotiations with Iran on a

“Trade and Cooperation Agreement” (TCA) that would lower the tariffs or increase quotas for Iranian exports to the EU countries. However, revelations about Iran’s undeclared nuclear activity caused a suspension of the talks in July 2003. The TCA talks resumed in January 2005 in concert with the “Paris Agreement,” but after the eighth round of negotiations on July 12-13, 2005, the talks were suspended after the August 2005 breakdown of the Paris Agreement. During the active period of such talks, there were working group discussions focused not only on the TCA terms and proliferation issues but also on Iran’s human rights record, Iran’s efforts to derail the Middle East peace process, Iranian-sponsored terrorism, counter-narcotics, refugees, migration issues, and the Iranian opposition PMOI. A further indicator that trade and investment agreements with Iran are on hold pending a nuclear solution is the apparent decision of Japan’s Inpex to cut its \$2 billion investment to develop Iran’s large (26 billion barrels) onshore Azadegan oil field to a stake of only about 10% in that project. That project was signed in April 2007. In addition, several EU countries report that civilian trade with Iran is down because Iran’s defiance on the nuclear issue is introducing more perceived risk to trading with Iran.

Similarly, there is insufficient international support to grant Iran membership in the World Trade Organization (WTO) until there is progress on the nuclear issue. Iran first attempted to apply to join the WTO in July 1996. On 22 occasions after that, representatives of the Clinton and then the Bush Administration blocked Iran from applying (applications must be by consensus of the 148 members). As discussed above, as part of an effort to assist the EU-3 nuclear talks with Iran, the Administration announced on March 11, 2005, that it would drop opposition to Iran’s applying for WTO membership. At a WTO meeting in May 2005, no opposition to Iran’s application was registered, and Iran formally began accession talks.

**Banking and Financing Limitations.** In the area of trade financing, Undersecretary of State Burns told Congress on March 29, 2007, that U.S. officials are having some success persuading European governments to limit new export credits guarantees to Iran. This result is due not only to U.S. diplomacy but also to U.S. presentations of the financial risk posed by providing credit to Iran. The Organization for Economic Cooperation and Development (OECD) in 2006 raised the financial risk rating for Iran. Some EU countries say they have reduced credit guarantee exposure to Iran by as much as 33% since Resolution 1737 was passed in December 2006.

Previously, the EU countries have maintained that financing for purely civilian goods is not banned by any U.N. resolution and that exporters of such goods should not be penalized. In the 1990s, when European and Japanese creditors — over U.S. objections — rescheduled about \$16 billion in Iranian debt during 1994-1995. These countries (governments and private creditors) rescheduled the debt bilaterally, in spite of Paris Club rules that call for multilateral rescheduling. Iran’s improved external debt led most European export credit agencies to restore insurance cover for exports to Iran, as shown in **Table 2**, “Selected Economic Indicators,” earlier in this report. In July 2002, Iran tapped international capital markets for the first time since the Islamic revolution, selling \$500 million in bonds to European banks.

The U.S. Treasury and State Departments have begun using U.S. financial regulations — as well as the new authorities in Resolution 1737 and 1747 — in an

apparently successful effort to pressure individual European banks not to provide letters of credit for exports to Iran or to process dollar transactions for Iranian banks. Undersecretary of State Burns and Undersecretary of the Treasury Stuart Levey testified on March 21, 2007, that “... many leading foreign banks have either scaled back dramatically or terminated entirely their Iran-related business ... concluding that they simply did not wish to be a banker for a regime that deliberately conceals the nature of its illicit business.”

Among specific actions, in 2004, the Treasury Department fined UBS \$100 million for the unauthorized movement of U.S. dollars to Iran and other sanctioned countries, and on December 20, 2005, the Treasury Department fined Dutch bank ABN Amro \$80 million for failing to fully report the processing of financial transactions involving Iran’s Bank Melli (and another bank partially owned by Libya). UBS and three other European banks, HSBC (Britain), Credit Suisse (Switzerland), and Germany’s Commerzbank A.G, reportedly have stopped dollar transactions from within Iran or pursuit of new business in Iran. On September 8, 2006, the Treasury Department said it would bar U.S. banks from handling any indirect transactions (“U-turn transactions, meaning transactions with non-Iranian foreign banks that are handling transactions on behalf of an Iranian bank) with Iran’s state-owned Bank Saderat, which the Administration accuses of providing funds to Hezbollah.<sup>55</sup> The restrictions on financing are, according to Iranian and outside observers, making it more difficult to fund energy industry and other projects in Iran.

The EU and Japan appear to have made new international lending to Iran contingent on Iran’s response to international nuclear demands. This represents a narrowing of past differences between the United States and its allies on this issue. Acting under provisions of successive foreign aid laws, in 1993 the United States voted its 16.5% share of the World Bank against loans to Iran of \$460 million for electricity, health, and irrigation projects, but the loans were approved. To block that lending, the FY1994-FY1996 foreign aid appropriations (P.L. 103-87, P.L. 103-306, and P.L. 104-107) cut the amount appropriated for the U.S. contribution to the Bank by the amount of those loans. The legislation contributed to a temporary halt in new Bank lending to Iran. During 1999-2005, Iran’s moderating image had led the World Bank to consider new loans over U.S. opposition. In May 2000, the United States’ allies outvoted the United States to approve \$232 million in loans for health and sewage projects. During April 2003-May 2005, a total of \$725 million in loans were approved for environmental management, housing reform, water and sanitation projects, and land management projects, in addition to a \$400 million in loans for earthquake relief. (A provision of H.R. 1400 and S. 970, introduced in the 110<sup>th</sup> Congress, would impose a new restriction on U.S. contributions to the World Bank in proportion to the Bank’s lending to Iran.)

## **U.S. Sanctions**

Any international or multilateral sanctions would add to the wide range of U.S. sanctions in place since the November 4, 1979, seizure of the U.S. hostages in

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<sup>55</sup> Kessler, Glenn. “U.S. Moves to Isolate Iranian Banks.” *Washington Post*, September 9, 2006.

Tehran.<sup>56</sup> Some experts believe that, even before U.S. allies have begun to impose some sanctions on Iran, which U.S. sanctions alone were slowing Iran's economy, forcing it to curb spending on weapons purchases,<sup>57</sup> although others dispute that assessment, saying U.S. sanctions had marginal or no effect on Iran.

**Terrorism/Foreign Aid Sanctions.** In January 1984, following the October 1983 bombing of the U.S. Marine barracks in Lebanon (believed perpetrated by Hezbollah) Iran was added to the "terrorism list." The list was established by Section 6(j) of the Export Administration Act of 1979, sanctioning countries determined to have provided repeated support for acts of international terrorism.

- The terrorism list designation bans direct U.S. financial assistance (Foreign Assistance Act, FAA) and arms sales (Arms Export Control Act), restricts sales of U.S. dual use items (Export Administration Act, as continued by executive order), and requires the United States to vote to oppose multilateral lending to the designated countries (Anti-Terrorism and Effective Death Penalty Act of 1996, P.L. 104-132). Waivers are provided under these laws, but successive foreign aid appropriations laws since the late 1980s ban direct assistance to Iran (loans, credits, insurance, Eximbank credits) without providing for a waiver.
- Section 307 of the FAA (added in 1985) names Iran as unable to benefit from U.S. contributions to international organizations, and require proportionate cuts if these institutions work in Iran. No waiver is provided for.
- Under the Anti-Terrorism and Effective Death Penalty Act, the President is required to withhold U.S. foreign assistance to any country that provides to a terrorism list country foreign assistance or arms. Waivers are provided for.
- U.S. sanctions laws do not bar disaster aid and the United States donated \$125,000, through relief agencies, to help victims of two earthquakes in Iran (February and May 1997), and another \$350,000 worth of aid to the victims of a June 22, 2002 earthquake. (The World Bank provided some earthquake related lending as well.) The United States provided \$5.7 million in assistance (out of total governmental pledges of about \$32 million, of which \$17 million have been remitted) to the victims of the December 2003 earthquake in Bam, Iran, which killed as many as 40,000 people and destroyed 90% of Bam's buildings. The United States flew in 68,000 kilograms of supplies to Bam, flown in by U.S. military flights.

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<sup>56</sup> On November 14, 1979, President Carter declared a national emergency with respect to Iran, renewed every year since 1979.

<sup>57</sup> "The Fight Over Letting Foreigners Into Iran's Oilfields." *The Economist*, July 14, 2001.

**Proliferation Sanctions.** Iran is prevented from receiving advanced technology from the United States under relevant and Iran-specific anti-proliferation laws.<sup>58</sup> The Iran-Iraq Arms Nonproliferation Act (P.L. 102-484) requires denial of license applications for exports to Iran of dual use items, and imposes sanctions on foreign countries that transfer to Iran “destabilizing numbers and types of conventional weapons,” as well as WMD technology. The Iran Nonproliferation Act (P.L. 106-178) authorizes sanctions on foreign entities that assist Iran’s WMD programs. It bans U.S. extraordinary payments to the Russian Aviation and Space Agency in connection with the international space station unless the President can certify that the agency or entities under its control had not transferred any WMD or missile technology to Iran within the year prior. The provision contains certain exceptions to ensure the safety of astronauts, but it nonetheless threatened to limit U.S. access to the international space station after April 2006, when Russia started charging the United States for transportation on its Soyuz spacecraft. Legislation in the 109<sup>th</sup> Congress (S. 1713, P.L. 109-112) amended the provision in order to facilitate continued U.S. access and extended INA sanctions provisions to Syria. The law is now called the Iran-Syria Non-Proliferation Act (ISNA).<sup>59</sup> In the 109<sup>th</sup> Congress, a provision extending the Iran Sanctions Act (ISA), H.R. 6198 (P.L. 109-293), made WMD and advanced conventional weapons exports to Iran sanctionable (see further below).

Reflecting a Bush Administration decision to impose sanctions for violations, the Bush Administration has sanctioned numerous entities as discussed below. These entities were sanctioned under the INA, the Iran-Iraq Arms Non-Proliferation Act of 1992 (P.L. 102-484), and another law, the Chemical and Biological Warfare Elimination Act of 1991, for sales to Iran. Those entities are listed in Table 4 at the end of this paper.

As with previous years’ appropriations, the FY2006 foreign aid appropriation (P.L. 109-102) punished the Russian Federation for assisting Iran by withholding 60% of any U.S. assistance to the Russian Federation unless it terminates technical assistance to Iran’s nuclear and ballistic missiles programs. House- and Senate-passed FY2007 foreign aid legislation (H.R. 5522) contain similar provisions. A provision of H.R. 1400 and of S. 970 would restrict nuclear cooperation with Russia, under the Atomic Energy Act of 1954, if it continues to assist Iran’s nuclear or advanced conventional weapons capabilities. (The two bills refer to different sections of the Atomic Energy Act, however.)

Another provision, Executive Order 13382, allows the President to block the assets of proliferators of weapons of mass destruction (WMD) and their supporters under the authority granted by the International Emergency Economic Powers Act (IEEPA, 50 U.S.C. 1701 et seq.), the National Emergencies Act (50 U.S.C. 1601 et seq.), and Section 301 of Title 3, United States Code. The Iranian entities in **Table**

<sup>58</sup> Such laws include the Atomic Energy Act of 1954 and the Energy Policy Act of 2005 (P.L. 109-58).

<sup>59</sup> Provisions were made applicable also to North Korea under legislation in the 109<sup>th</sup> Congress.

4 have been designated under E.O. 13382 for allegedly providing assistance to Iran's nuclear and ballistic missile programs since June 2005.

**Counter-Narcotics.** In February 1987, Iran was first designated as a state that failed to cooperate with U.S. anti-drug efforts or take adequate steps to control narcotics production or trafficking. U.S. and U.N. Drug Control Program (UNDCP) assessments of drug production in Iran prompted the Clinton Administration, on December 7, 1998, to remove Iran from the U.S. list of major drug producing countries. This exempts Iran from the annual certification process that kept drug-related U.S. sanctions in place on Iran. According to several governments, over the past few years Iran has augmented security on its border with Afghanistan in part to prevent the flow of narcotics from that country into Iran. Britain has sold Iran some night vision equipment and body armor for the counter-narcotics fight. Iran also reportedly is supporting the international counter-narcotics effort in Afghanistan by providing aid to Afghan farmers to grow crops other than poppy.

**U.S. Trade Ban.** On May 6, 1995, President Clinton issued Executive Order 12959 banning U.S. trade and investment in Iran. This followed an earlier March 1995 executive order barring U.S. investment in Iran's energy sector. The trade ban was partly intended to blunt criticism that U.S. trade with Iran made U.S. appeals for multilateral containment of Iran less credible. Each March since 1995, the U.S. Administration has renewed a declaration of a state of emergency that triggered the March 1995 investment ban.<sup>60</sup> Some modifications to the trade ban since 1999 account for the trade that does exist between the United States and Iran. (H.R. 1400, S. 970, introduced in the 110<sup>th</sup> Congress, would reimpose many of the restrictions that have been eased, and would apply sanctions to the parent companies of U.S. subsidiaries if those subsidiaries are directed or formed to trade with Iran.)

The following conditions and modifications, as administered by the Office of Foreign Assets Control (OFAC) of the Treasury Department, apply.

- Some goods related to the safe operation of civilian aircraft may be licensed for export to Iran, and in December 1999, the Clinton Administration allowed the repair of engine mountings on seven Iran Air 747s (Boeing). In September 2006, the Bush Administration, in the interests of safe operations of civilian aircraft, permitted a sale by General Electric of Airbus engine spare parts to be installed on several Iran Air passenger aircraft (by European airline contractors). H.R. 1400 would ban such sales of spare parts.
- OFAC regulations do not permit U.S. firms to negotiate investment deals with Iran or to trade Iranian oil overseas.
- Since April 1999, commercial sales of food and medical products to Iran have been allowed, on a case-by-case basis and subject to

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<sup>60</sup> An August 1997 amendment to the trade ban (Executive Order 13059) prevented U.S. companies from knowingly exporting goods to a third country for incorporation into products destined for Iran.

OFAC licensing. OFAC testified before a House Foreign Affairs Committee subcommittee on April 18, 2007, that licenses for exports of medicines to treat HIV and leukemia are routinely expedited for sale to Iran, and license applications are viewed favorably for business school exchanges, earthquake safety seminars, plant and animal conservation, and medical training in Iran. Private letters of credit can be used to finance approved transactions, but no U.S. government credit guarantees are available, and U.S. exporters are not permitted to deal directly with Iranian banks. The FY2001 agriculture appropriations law (P.L. 106-387) contained a provision banning the use of official credit guarantees for food and medical sales to Iran and other countries on the U.S. terrorism list, except Cuba, although allowing for a presidential waiver to permit such credit guarantees. Neither the Clinton Administration nor the Bush Administration provided the credit guarantees. Iran says the lack of credit makes U.S. sales, particularly of wheat, uncompetitive, and few such sales to Iran have been completed. H.R. 1400 does not contain a provision limiting such exports to Iran.

- In April 2000, the trade ban was further eased to allow U.S. importation of Iranian nuts, dried fruits, carpets, and caviar. The United States was the largest market for Iranian carpets before the 1979 revolution, but U.S. anti-dumping tariffs imposed on Iranian pistachio nut imports in 1986 (over 300%) dampened imports of that product. In January 2003, the tariff on roasted pistachios was lowered to 22% and on raw pistachios to 163%. In December 2004, U.S. sanctions were further modified to allow Americans to freely engage in ordinary publishing activities with entities in Iran (and Cuba and Sudan). H.R. 1400 would re-impose the ban on importation of such goods from Iran.
- Subsidiaries of U.S. firms are not barred from dealing with Iran, as long as the subsidiary has no operational relationship to the parent company. Some U.S. companies have come under scrutiny for dealings by their subsidiaries with Iran. On January 11, 2005, Iran said it had let a contract to the U.S. company Halliburton, and an Iranian company, Oriental Kish, to drill for gas in Phases 9 and 10 of South Pars. Under the deal, Halliburton reportedly provided \$30 million to \$35 million worth of services per year through Oriental Kish. This left unclear whether Halliburton would be considered in violation of the U.S. trade and investment ban or the Iran Sanctions Act (ISA),<sup>61</sup> because the dealings apparently involved a subsidiary of Halliburton (Cayman Islands-registered Halliburton Products and Service, Ltd, based in Dubai). Because of criticism, Halliburton announced on January 28, 2005, that it would withdraw all employees from Iran and end its pursuit of future business

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<sup>61</sup> “Iran Says Halliburton Won Drilling Contract.” *Washington Times*, January 11, 2005.

opportunities there.<sup>62</sup> On April 10, 2007, Halliburton announced that its subsidiaries had completed all contractual commitments with Iran and that it is no longer operating there, but Halliburton has said it is setting up a headquarters in Dubai to pursue additional business in the region.

- General Electric (GE) announced in February 2005 that it would seek no new business in Iran. According to press reports, GE has been selling Iran equipment and services for hydroelectric, oil and gas services, and medical diagnostic projects through Italian, Canadian, and French subsidiaries. The trade ban appears to bar any Iranian company from buying a foreign company that has U.S. units. Another subsidiary, of Foster Wheeler company, is said to be providing Iran energy related technology.
- The trade ban permits U.S. companies to apply for licenses to conduct “swaps” of Caspian Sea oil with Iran, but, as part of a U.S. policy to route Central Asian energy around Iran (and Russia), a Mobil Corporation application to do so was denied in April 1999.
- In May 2002 Moody’s stopped its credit ratings service for Iran’s government bonds on the grounds that performing this service might violate the U.S. trade ban.

**The Iran Sanctions Act (ISA)/H.R. 1400/S. 970.** The Iran Sanctions Act (P.L. 104-172, August 5, 1996; renewed by P.L. 107-24, August 3, 2001; renewed again for two months by P.L. 109-267; and renewed and amended by P.L. 109-293) sanctions foreign (or U.S.) investment of more than \$20 million in one year in Iran or Libya’s energy sector. In the 109<sup>th</sup> Congress, broad ISA-amendment bills were H.R. 282, which was passed by the House on April 26, 2006; a Senate companion measure, S. 333; and H.R. 6198, the latter of which was passed and then signed on September 30, 2006 (P.L. 109-293). This “Iran Freedom Support Act,” discussed above, extends ISA until December 31, 2011, and drops Libya from the law, and is now called the Iran Sanctions Act. It codifies existing Iran sanctions, makes exports to Iran of WMD or advanced conventional weapons technology sanctionable, and recommends (but does not mandate) a 180-day time limit for the Administration to determine whether a project violates ISA. It did not change the menu of available sanctions by deleting the President’s ability to ban imports from sanctioned entities, as was contained in early versions of H.R. 282. As noted above, it also authorizes additional funding for promoting democracy in Iran.

No projects have actually been sanctioned under ISA, and numerous investment agreements with Iran since its enactment have helped Iran slow deterioration of its energy export sector. However, Iran’s oil minister said in December 2006 that the nuclear dispute between Iran and the international community had caused some foreign banks to shy away from financing energy projects in Iran. Some European

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<sup>62</sup> Boyd, Roderick. “Halliburton Agrees to Leave Iran, Thompson Says.” *New York Sun*, March 25, 2005.

companies are hesitating on potential new energy investments in Iran, and there is uncertainty about whether large preliminary agreements of investments by Asian companies will be implemented. One major project that Iran believes would help its gas export sector considerably is a proposed gas pipeline from Iran through Pakistan, to India, which all three countries say they are proceeding with despite U.S. opposition. (See CRS Report RS20871, *The Iran Sanctions Act*, by Kenneth Katzman.)

In the 110<sup>th</sup> Congress, H.R. 1400 would remove the Administration's ability to waive application of sanctions under ISA. The Administration opposes that provision of H.R. 1400 on the grounds that requiring sanctions on allied companies would divide the United States and its allies on Iran policy; the Senate counterpart bill, S. 970, does not contain this restriction. However, H.R. 1400 would not impose on the Administration a time limit to determine whether a project is sanctionable. H.R. 1400, S. 970, and another bill, H.R. 957, would clarify the definitions of sanctionable entities to include official credit guarantee agencies, such as France's COFACE and Germany's Hermes, and both bills would also clearly apply ISA sanctions to pipeline and liquified natural gas (LNG) projects. H.R. 1400 would also require the president to ban procurement from a sanctioned entity when deciding which of the two out of six sanctions to impose.

**Divestment.** A growing trend not only in Congress but in at least nine U.S. states is to require or call for or require divestment of shares of firms that have invested in Iran's energy sector (at the same levels considered sanctionable under the Iran Sanctions Act). H.R. 1400 does not require divestment, but requires a presidential report on firms that have invested in Iran's energy sector. Another bill, H.R. 1357, would require government pension funds to divest of shares in firms that have made ISA-sanctionable investments in Iran's energy sector and bar government and private pension funds from future investments in such firms. Two other bills, H.R. 2347 (reported out by the Financial Services Committee on May 23) and S. 1430, would protect mutual fund and other investment companies from shareholder action for any losses that would occur from divesting in firms that have investing in Iran's energy sector.

**Travel-Related Guidance.** Use of U.S. passports for travel to Iran is permitted. Iranians entering the United States are required to be fingerprinted, and Iran has imposed reciprocal requirements. On November 1, 2006, it was reported that Iran would offer cash incentives to Iranian tour companies that invite Americans to Iran as part of an outreach to the American public.

**Status of Some U.S.-Iran Assets Disputes.** A U.S.-Iran Claims Tribunal at the Hague continues to arbitrate cases resulting from the 1980 break in relations and freezing of some of Iran's assets. Major cases yet to be decided center on hundreds of Foreign Military Sales (FMS) cases between the United States and the Shah's regime, which Iran claims it paid for but were unfulfilled. About \$400 million in proceeds from the resale of that equipment was placed in a DOD FMS account, and about \$22 million in Iranian diplomatic property remains blocked, although U.S. funds have been disbursed — credited against the DOD FMS account — to pay judgments against Iran for past acts of terrorism against Americans. Other disputes include the mistaken U.S. shoot-down on July 3, 1988, of an Iranian Airbus

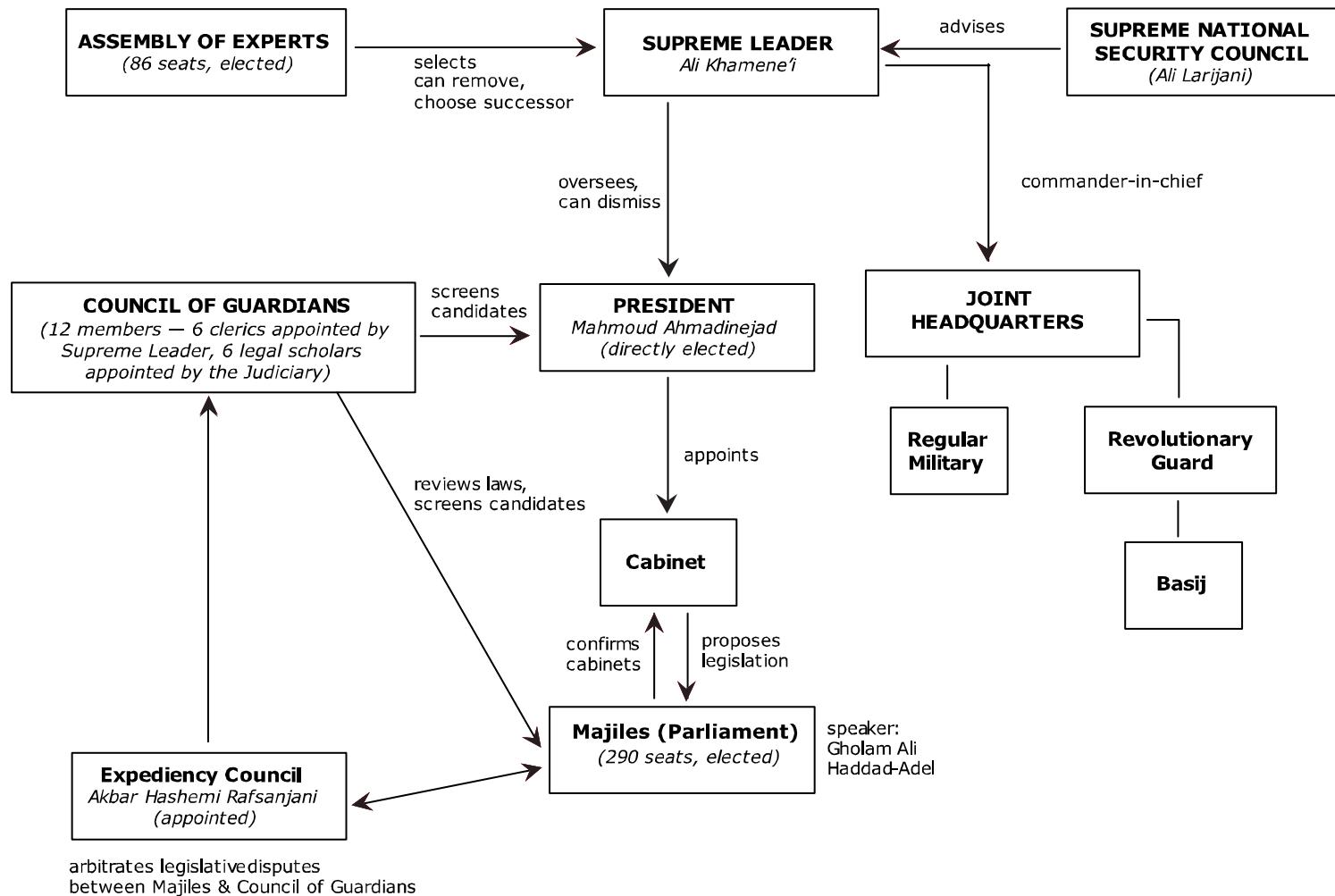
passenger jet (Iran Air flight 655), for which the United States, in accordance with an ICJ judgment, paid Iran \$61.8 million in compensation (\$300,000 per wage earning victim, \$150,000 per non-wage earner) for the 248 Iranians killed. The United States has not compensated Iran for the airplane itself. As it has in past similar cases, the Administration has opposed a terrorism lawsuit against Iran by victims of the U.S. Embassy Tehran seizure on the grounds of diplomatic obligation.<sup>63</sup>

## Conclusion

Mistrust between the United States and Iran's Islamic regime has run deep for over two decades, even before the emergence of a dispute over Iran's nuclear program. Many experts say that all factions in Iran are united on major national security issues and that U.S.-Iran relations might not improve unless or until the Islamic regime is removed or moderates substantially, even if a nuclear deal is reached and implemented. The Administration and many experts believe that Iran has become emboldened by the installation of pro-Iranian regimes in Iraq and Afghanistan, and the new strength of Hezbollah in Lebanon, and that Iran now seeks to press its advantage to strengthen regional Shiite movements and possibly drive the United States out of the Gulf. Others reach an opposite conclusion, stating that Iran now feels more encircled than ever by pro-U.S. regimes and U.S. forces guided by a policy of pre-emption, and Iran is redoubling its efforts to develop WMD and other capabilities to deter the United States. Some say that, despite Ahmadinejad's presidency, the United States and Iran have a common interest in stability in the Persian Gulf and South Asia regions in the aftermath of the defeat of the Taliban and the regime of Saddam Hussein and that major diplomatic overtures to Iran, including direct bilateral talks to resolve all outstanding issues, should be explored.

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<sup>63</sup> See CRS Report RL31258, *Suits Against Terrorism States by Victims of Terrorism*, by Jennifer K. Elsea.

**Figure 1. Structure of the Iranian Government**

**Figure 2. Map of Iran**

Source: Map Resources. Adapted by CRS.

**Table 4. Entities Sanctioned by U.N. Resolutions and Executive Order 13382**

Entities Sanctioned Under Resolution 1737		
Atomic Energy Organization of Iran (AEIO)	Mesbah Energy Company (Arak supplier)	Kalaye Electric (Natanz supplier)
Pars Trash Company (centrifuge program)	Farayand Technique (centrifuge program)	Defense Industries Organization (DIO)
7 <sup>th</sup> of Tir (DIO subordinate)	Shahid Hemmat Industrial Group (SHIG) - missile program	Shahid Bagheri Industrial Group (SBIG) missile program
Fajr Industrial Group (missile program)	Mohammad Qanadi, AEIO Vice President	Behman Asgarpour (Arak manager)
Dawood Agha Jani (Natanz official)	Ehsan Monajemi (Natanz construction manager)	Jafar Mohammadi (adviser to AEIO)
Ali Hajinia Leilabadi (director of Mesbah Energy)	Lt. Gen. Mohammad Mehdi Nejad Nouri (Malak Ashtar University of Defence Technology rector)	Gen Hosein Salimi (Commander, IRGC Air Force)
Ahmad Vahid Dastjerdi (head of Aerospace Industries Org. , AIO)	Reza Gholi Esmaeli (AIO official)	Bahmanyar Morteza Bahmanyar (AIO official)
Maj. Gen. Yahya Rahim Safavi Commander in Chief, IRGC		
Entities Added by Resolution 1747		
Ammunition and Metallurgy Insdities Group (controls 7 <sup>th</sup> of Tir)	Esfahan Nuclear Fuel Researh and Production Center and Esfahan Nuclear Technology Center	Kavoshyar Company (subsidiary of AEIO)
Parchin Chemical Industries (branch of DIO)	Karaj Nuclear Research Center	Novin Energy Company
Cruise Missile Industry Group	Bank Sepah (funds AIO and subordinate entities)	Sanam Industrial Group (subordinate to AIO)
Ya Mahdi Industries Group	Qods Aeronautics Industries (produces UAV's, para-gliders for IRGC assymetric warfare)	Pars Aviation Services Company (maintains IRGC Air Force equipment)

Sho'a Aviation (produces IRGC light aircraft for asymmetric warfare)	Fereidoun Abbasi-Davani (senior defense scientist)	Mohasen Fakrizadeh-Mahabai (defense scientist)
Seyed Jaber Safdari (Natanz manager)	Amir Rahimi (head of Esfahan nuclear facilities)	Mohsen Hojati (head of Fajr Industrial Group)
Mehrdada Akhlaghi Katabachi (head of SBIG)	Naser Maleki (head of SHIG)	Ahmad Derakshandeh (head of Bank Sepah)
Brig. Gen. Morteza Reza'i (Deputy commander-in-chief, IRGC)	Vice Admiral Ali Akbar Ahmadiyan (chief of IRGC Joint Staff)	Brig. Gen. Mohammad Reza Zahedi (IRGC ground forces commander)
Rear Admiral Morteza Safari (commander, IRGC Navy)	Brig. Gen. Mohammad Hejazi (Basij commander)	Brig. Gen. Qasem Soleimani (Qods Force commander)
Gen. Mohammad Baqr Zolqadr (IRGC officer serving as deputy Interior Minister)		
<b>Entities Designated Under Executive Order 13382</b>		
Entity	Date Named	
Shahid Hemmat Industrial Group	June 2005	
Shahid Bakeri Industrial Group	June 2005	
Atomic Energy Organization of Iran	June 2005	
Novin Energy Company	January 2006	
Mesbah Energy Company	January 2006	
Four Chinese entities: Beijing Alite Technologies, LIMMT Economic and Trading Company, China Great Wall Industry Corp, and China National Precision Machinery Import/Export Corp.	June 2006	
Sanam Industrial Group	July 2006	
Ya Mahdi Industries Group	July 2006	
Bank Sepah	January 2007	
Defense Industries Organization	March 2007	
<b>Entities Sanctioned Under the Iran Non-Proliferation Act and other U.S. Laws</b>		
Norinco (China). For alleged missile technology sale to Iran.	May 2003	

Taiwan Foreign Trade General Corporation (Taiwan)	July 4, 2003
Tula Instrument Design Bureau (Russia). For alleged sales of laser-guided artillery shells to Iran.	September 17, 2003
13 entities sanctioned including companies from Russia, China, Belarus, Macedonia, North Korea, UAE, and Taiwan.	April 7, 2004
14 entities from China, North Korea, Belarus, India (two nuclear scientists, Dr. Surendar and Dr. Y.S.R. Prasad), Russia, Spain, and Ukraine.	September 29, 2004
14 entities, mostly from China, for alleged supplying of Iran's missile program. Many, such as North Korea's Changgwang Sinyong and China's Norinco and Great Wall Industry Corp, have been sanctioned several times previously. Newly sanctioned entities included North Korea's Paeksan Associated Corporation, and Taiwan's Ecoma Enterprise Co.	December 2004 and January 2005
9 entities, including those from China (Norinco yet again), India (two chemical companies), and Austria. Sanctions against Dr. Surendar of India (see September 29, 2004) were ended, presumably because of information exonerating him.	December 26, 2005
7 entities. Two Indian chemical companies (Balaji Amines and Prachi Poly Products); two Russian firms (Rosobornexport and aircraft manufacturer Sukhoi); two North Korean entities (Korean Mining and Industrial Development, and Korea Pugang Trading); and one Cuban entity (Center for Genetic Engineering and Biotechnology).	August 4, 2006
9 entities. Rosobornesksport, Tula Design, and Komna Design Office of Machine Building, and Alexei Safonov (Russia); Zibo Chemical, China National Aerotechnology, and China National Electrical (China). Korean Mining and Industrial Development (North Korea) for WMD or advanced weapons sales to Iran (and Syria).	January 2007
14 entities, including Lebanese Hezbollah. Some were penalized for transactions with Syria. Among the new entities sanctioned for assisting Iran were Shanghai Non-Ferrous Metals Pudong Development Trade Company (China); Iran's Defense Industries Organization; Sokkia Company (Singapore); Challenger Corporation (Malaysia); Target Airfreight (Malaysia); Aerospace Logistics Services (Mexico); and Arif Durrani (Pakistani national).	April 23, 2007